

# GLOBALISATION AND EQUALITY : A LIBERTARIAN PERSPECTIVE

Marian L. Tupy

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# **Globalisation and Equality:**

## **A Libertarian Perspective**

**Submitted by Marian L. Tupy for the Degree of Doctor of Philosophy of the  
University of St. Andrews on the 28<sup>th</sup> of February 2002**



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## Abstract

Why are some people rich and others poor? Why are some states more prosperous than others? In answering these questions, the public and scholars alike often take the rarely challenged position that economic inequalities result from past or present discrimination or other forms of injustice. Evidently, few believe that all economic inequality is produced by injustice: slackers are despised for their unwillingness to help themselves; countries with failing economic policies do not go uncriticised. Nevertheless, the belief that economic disparities arise because of calculated injustice is deeply ingrained. Underlying this conviction is the assumption that "given equal opportunity, all people would perform equally well". In fact, this assertion ignores instances of economic success achieved despite vigorous negative discrimination. There are many examples of poor, migrant minorities, who, despite transplantation into alien, discriminating environments, succeeded in out-performing the indigenous population and so incurred envy, resentment, and worse. What remains inescapably evident is that people differ in their ability to utilise opportunities presented by a free market system. Defensively, under-performing groups therefore invest energy in securing state interference to change market outcomes in their favour, and demonise the free market system as inherently unjust. In fact, it can be shown that the only economic arrangement compatible with the equality of all individuals and groups before the law is the free market. Globalisation facilitates the spread of this free market system. It should, therefore, be welcomed as the path to greater economic prosperity and greater equality before the law for everyone.

I, Marian L. Tupy, hereby certify that this thesis, which is approximately 100 000 words in length, has been written by me, that it is the record of work carried out by me and that it has not been submitted in any previous application for a higher degree.

28 February 2002

I was admitted as a research student in September 1999 and as a candidate for the degree of Doctor of Philosophy in March 2000; the higher study for which this is a record was carried out in the University of St. Andrews between 1999 and 2002.

28 February 2002

I hereby certify that the candidate has fulfilled the conditions of the Resolution and Regulations appropriate for the degree of Doctor of Philosophy in the University of St. Andrews and that the candidate is qualified to submit this thesis in application for that degree.

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## Introduction

*The finest opportunity ever given to the world was thrown away because the passion for equality made vain the hope for freedom.<sup>1</sup>*

- Lord Acton

“I don’t have the knowledge to blame a government... I don’t know about politics, but for our problems I blame [the] world community. All humans should be equal, but we are not. You ask me who is to blame... You can see for yourself. You wear nice clothes and are healthy. But look at us. We have no clothes to wear and we are not healthy.” These are the words of Bakhtiar Khan, a brick-maker in Peshawar, Afghanistan. To Khan, like so many other people throughout the world, material equality among peoples is a given. It is the natural condition of mankind and any departure from it is, by implication, a result of some sort of unfair practice. Where did Khan get his ideas? Maybe he reflected on the world as he saw it and maybe he was taught at a school similar to the one recently reported on in the press. There a teacher held up a wealth chart of the world. “America”, she said, “controls this huge slice of the pie, leaving a tiny sliver for us Afghans”.<sup>2</sup> According to this view, America is wealthy, because Afghanistan is poor. Also, according to this view, wealth is not created, but merely transferred from one nation to another. It matters little what form of government the people live under. Similarly, it does not matter what their culture and their abilities are. The more vicious and powerful nation always wins. And, because it is vicious and

unfair, it is just to punish it. If this logic is true, then on September 11th 2001, the United States of America (USA) suffered a just punishment.

There is nothing new about the way in which disproportionately wealthy people are perceived, whether they live in generally prosperous states like the USA or form a minority within a state like Russian Kulaks. Because of the widespread egalitarian assumptions, their prosperity is seen as unjustly acquired. Groups that outperform others, often in the face of outright discrimination, are normally assigned a set of negative social characteristics, such as selfishness, greediness, individualism, disloyalty and so on. More often than not, they are also accused of taking advantage of an inhumane, uncaring, and selfish economic system. The Jews and the Chinese working within the capitalist milieu are, of course, prime examples of such superior economic performers. That is not to say that all states and groups indeed gained their prosperity in a just way. But the link that most people make between disproportionate wealth and injustice should never be allowed to become automatic, for the feeling of injustice gives rise to hatred and inevitable consequences, such as social strife, follow. It is for this reason that explanations of global economic inequalities are immensely influential. Today, with trade liberalisation around the world growing, a proper understanding of why it is that some people are richer than others is more important than ever.

The goal of this thesis is to address the question of equality in the context of globalisation. As will be seen, the persistence and, in some cases, growth, of international and intra-national economic disparities has emerged as one of the most important objections to globalisation – especially globalisation understood as liberalisation of trade around the world. Books and articles are being written about the

supposed impact of globalisation on the rise of inequality in the world, which is, almost without exception, seen as a negative phenomenon. Only very few scholars, it seems, wonder why economic equality should be expected in the first place and whether this expectation is either realistic or practicable. As Dunn wrote in his study of revolutions, their main is “a simple one: do human social conditions have to be as unequal and as unjust as everywhere they now are?”<sup>3</sup> Why equality should be more just than inequality or why change is likely to be better than no change he left unanswered.<sup>4</sup> Clearly, equality of condition, as opposed to “mere” equality before the law, is a notion that has become an obsession to many members of the academe and a number of influential politicians. What they ignore is the alternative view, which holds that more important than relative inequality is the absolute increase in the standard of living, an outcome which free trade has an impressive record of delivering.

### **Outline of the Argument**

It was reasonable to expect that the collapse of the Soviet Union (USSR) would signal an end not only to the idea of planned economy, but also to the infatuation that many people had with all variations of Socialism. At least that was the expectation of those who, like F. A. Hayek, understood that despotism found behind the Berlin Wall was typical to all societies which were based on grand communal designs and which necessitated suppression of individual needs and goals. Yet, even as the Wall was coming down, some thinkers started claiming that Socialism in the USSR was not real Socialism after all. Rather, they claimed, it was a perversion of a noble idea. “Rampant” Capitalism,



which replaced it, they asserted, remains too dangerous and immoral. It is true that people, who subscribe to the unreconstructed Communist ideal, are very few, but scepticism concerning the free market permeates the world. One of the schools of thought that has emerged after the collapse of Communism and that shares this basic scepticism is "Cosmopolitanism" and its political actualisation, "The Third Way".

Cosmopolitanism is an example of a way in which the post-1989 left tries to combine the self-evident practicality of the free-market capitalism with "social" or "distributive justice" which, it claims, capitalism compromises. In the political arena, therefore, the Third Way aims to steer a course between the efficiency and "injustices" of capitalism, by borrowing certain Socialist techniques, such as regulation of the economy and high degree of financial redistribution. Of particular interest in this thesis, are the justifications presented for economic intrusion. As will be shown, the reasons offered by Cosmopolitans are based on the same kind of egalitarian logic as those that have been used to discriminate against over-performing groups in the past.

As one Cosmopolitan thinker, David Held, argues, people who wish to enjoy true or substantive equality must first come to terms with what he calls "nautonomic inequality". This inequality, he states, rests in "the asymmetrical production and distribution of life-chances which limit and erode the possibilities of political participation". Crucially, he assumes that these inegalitarian nautonomic structures must arise out of the ability of one group to exclude or discriminate against another group. This he calls "social closure". He goes on to argue that nautonomic structures can only be ascertained by outcomes of the socio-economic process. This argument, it seems clear, assumes that whenever a definable group exceeds the average level of

performance, it makes the presence of social closure *ipso facto* clear. To rectify these nautonomic inequalities, a just society must equalise everything from divergent patterns of physical and emotional well-being, physical and mental diseases correlated with race, class, gender and geography to public access to education, social security and so on.

According to Held, nautonomic inequalities do not arise spontaneously. They are caused by discrimination and one more crucial factor - capitalism. "One of the results of the capitalist form of ownership and control", Held writes, "has been the creation of the plethora of forms of inequality". Held asserts that capitalism in effect originates, supports, and perpetuates discrimination by being inherently unfair. To redress the inegalitarian tendencies of capitalism, he then explores avenues through which access to productive property can be "broadened". He begins by distinguishing between the wish "to secure possession of the shirt on...[one's] back... from the right to acquire shares in IBM and therewith the standard rights of ownership that shareholdings legally convey". Instead, he recommends types of "co-operative ownership" such as "market socialism" and "associationalism".

As this thesis will argue, the Cosmopolitan justifications for the governmental intrusion in the economy, be it national or international, is deeply flawed, for there are examples of superior group-performance that can under no circumstances be attributed to the systemic inequality about which Held talks. Both the Chinese minority in Malaysia and the Jewish minority in the USA were transplanted from very poor environments into totally alien ones. Though they were discriminated against, they succeeded in significantly outperforming the dominant groups among which they lived. They became affluent and influential. Thus, as with individuals, groups too perform differently despite

constraints, succeeding as they often do, in different areas of social and economic life. Based on these examples, it must be concluded that there is no *automatic* causal link between under-performance and political and economic exclusion.

To summarise, the reasons that the Cosmopolitans offer for interference with international and domestic economies are based on an erroneous assumption that all economic inequalities emerge out of political discrimination. But, this is often not true. As this thesis will show, economic inequalities can also emerge when there has been no discernable discrimination in favour of a particular group. In fact, there are examples of groups, which perform disproportionately well *despite* discrimination. Why some groups succeed, while others fail in a non-discriminating environment is beyond the scope of this thesis. But, if the above argument is correct, then it must be concluded that the Cosmopolitans fail to present convincing reasons for interference with the process of globalisation. To put it differently, the mere existence of economic inequality has nothing to do with the question of justice. Some people maybe poor because they were wronged, but this connection is by no means to be automatically assumed. Similarly, the fact of economic inequality suggests nothing regarding the desirability of rectifying this situation or, for that matter, of the ways in which this situation should be rectified. Economic inequality, therefore, presents no grounds for being sceptical about trade liberalisation integral to globalisation.

Before moving on, a general comment. One of the foundations of this thesis is the belief in environment-neutral variations in performance among groups. Recognition of unequal potential to succeed, whether as a group or an individual, says nothing about the moral worth of that group or individual. As Thomas Jefferson said, "Whatever may

be their degree of talent it is no measure of their rights. Because Isaac Newton was superior to others in understanding, he is not therefore lord of the person or property of others".<sup>5</sup> Indeed, it is a fundamental tenet of liberalism that all people, irrespective of their characteristics and provided they behave within the constraints of law, must be treated in a morally equitable way. Similarly, an individual's belonging to an under-performing group does not logically convey anything about that particular individual. As Flew writes, "...the fact that I belong to some set which is on average less this or more than another set, to which you belong, carries no implication that I, as an individual, am less this or more than you. However much we may sympathise with...[him who belongs to an under-performing group], his argument...[that he will automatically be labelled in a prejudiced way, is], as an argument, paradigmatically fallacious".<sup>6</sup> Facts cannot be prejudiced, only attitudes can.

### **The Structure of the Thesis**

The thesis will begin with a discussion of the profound changes in the interaction between the individual and the state that have occurred as a result of the First World War (WWI). As is well known, the state's intervention in the economy - though always a phenomenon - grew out of all proportion as a result of the need of nations to conduct this first "total" war. Similarly, personal freedoms, such as free movement across borders and the choice in joining the military, were curtailed. Following the War, the world turned to protectionism, which contributed toward yet another, even more destructive war. Moreover, the accumulation of absolute power by the state in the USSR and Nazi

Germany, for example, precipitated tyranny and destruction of human life on a scale previously unknown. The second part of this chapter, therefore, turns to a theoretical discussion of the proper role of the state. It seems that the basic dichotomy is between the state as an instrument for the prevention of human coercion and the state that aims to enable people fully to realise their potential. Thus, while the former promotes only freedom from constraint, the latter aims to alter the arbitrariness of nature.

The second chapter will continue with a discussion of globalisation and the changing impact it has on the scope of the state. Some of its more obvious manifestations are the freer movement of capital and the consequent more limited fiscal and monetary powers of individual governments. These developments, of course, affect the ability of states to behave in a truly independent fashion. Whilst before it had been possible for the governments to engage in extensive programmes of social engineering, the market now makes the cash for such programmes scarcer. But, as the second part of the chapter shows, it would be wrong to think that the recent relaxation of trade restrictions amounts to anything even approximating free trade. In fact, the current trade regime can only be called "interventionist" and falls far short of the *laissez-faire* of the 19th century. The key difference is the identity of the actors determining the pace and direction of trade negotiations as well as the actual participants in exchange. Unlike the 19th century, when much depended on the provisions that individual businessmen and businesses made for themselves, internal as well as external trade today is still dominated by the state.

As will be argued in the third chapter, despite the constraints still placed upon the markets, many find the idea of freer markets unpalatable. Much of this opposition is

based on misunderstanding of how economies work. Underlying all these misconceptions is the unifying belief that the betterment of people's fortunes can come only through governmental intervention. This "statist" view applies to both right and left of the political spectrum. Moreover, both still see trade as a zero-sum game with clear winners and losers. As a result, the opponents of the free markets find it to their advantage to keep the group of the alleged "victims" of capitalism expanding. Every instance of unequal outcome is seen as a proof of unfair discrimination. In order to tackle this inexhaustible supply of victims, governments are asked to regulate socio-economic life further. Opposition to the free markets is not new and the second part of this chapter provides some examples of what Hayek called "eternal" and "universal" hatred of capitalism. Of course, it is one thing to criticise the markets and quite another to live without the benefits they bring. Thus, as the last section shows, the people who are most opposed to the freedom of the markets are very often the same people who derive greatest advantages from it.

The fourth chapter will begin by describing the views of David Held and Anthony Giddens. Their arguments have already been introduced and therefore this chapter immediately turns toward refuting them. The tactic adopted is to point out some of the dilemmas associated with empirical measurement of inequality. Social mobility, for example, points against Cosmopolitan pessimism. One study, for example, shows tremendous social mobility in the USA, where four-fifths of the people who were in the bottom 20% of the income earners in 1979 were no longer there in 1988. Similarly, definition of what it means to be "poor" is constantly changing - reflecting the progress that capitalist societies make. Precisely because it is relative, "poverty" in the West can

be used repeatedly in the battle against capitalism. On the international scene, matters are just as complex. As the World Bank's Gini Coefficient shows, there is, in fact, growing international economic equality. The prime cause of this equalisation is, thanks to capitalism, the huge economic improvement of the standards of living in Communist China.

The fifth chapter will then turn to the already mentioned examples. The Chinese minority in Malaysia and the Jewish community in USA both have suffered discrimination and yet manage to prosper and outperform the dominant groups in the midst of which they live. Social closure, therefore, cannot be assumed to be the automatic reason for disproportionate wealth of any particular group. Even more damaging to the Cosmopolitan case is the way in which the Nazis used disproportionate the wealth of the Jews in order to justify their extermination. As Farron's study shows, the Nazis used the fact of Jewish overrepresentation in the ultra-capitalist financial and commercial sectors of the economy as evidence to support their claim that the Jews got rich by unjust means. As will be shown, there can be no doubt that the Nazis saw Germans as a nation "victimised" at the hands of the Jews. The egalitarian dogma of equal performance among groups and anti-capitalism reached its apogee in the USSR, where an entire social class was exterminated on the basis of the mistaken view that economics was a zero-sum game and that one group's advantage could only happen as a result of another group's disadvantage.

As will be shown in the sixth chapter, Cosmopolitan assumptions, despite being flawed, underpin many of the social policies found in the West today. As such, Western societies continue to discriminate against excellence, ability, confidence, and hard work.

The purpose of this chapter is to show some of the many ways in which this is done. The underlying moral argument, which ties all this empirical evidence together, is Hayek's observation that the more the society tries to achieve equality of outcome among people with different abilities, the more unfree and more inegalitarian it has to become in their treatment. This compromises the egalitarian treatment of people before the law, a principle that is at the very heart of liberal social order. Moreover, besides the rule of law, the economy suffers as well, for it has to bear the burden of inexperience, inefficiency and sheer lack of ability. Economic consequences of egalitarianism will, therefore, also be considered.

As will be argued in the seventh chapter, not all egalitarianism is imposed from above. As Public Choice Theory shows, in a world where the government assumes control over an ever-growing proportion of resources, human proclivity to live at someone else's expense expands as well. This type of parasitic behaviour can be observed among individuals and companies alike. In terms of economic growth, however, corporate parasitism is a bigger problem. The chapter will, therefore, consider it at some length. As it will further discuss, the only effective way to stop all forms of parasitic behaviour is to minimise the role of the government in the economy. The first and crucial step on this road must be the reinstatement of a strong conception of private property. This is so, because private property is an insuperable obstacle to egalitarian designs. Without destruction of private property, it is impossible to engage in "redistribution" or any other form of social engineering. In that sense, therefore, private property not only thwarts the designs of the social engineers, but also maximises liberty.



The eighth chapter will offer an alternative view of globalisation and free trade. Far from being an enemy, it is argued, free trade benefits those who embrace it. Historically, the free market has been defended from two separate positions, one moral and the other consequentialist. But, as will be shown, an effective defence of the free market must combine both morality and practicality. Israel Kirzner's thesis does just that. As Kirzner shows, capitalism as a process of discovery enables the observer to see more than the benefits that entrepreneurship brings. Importantly, it provides moral defence of the rewards that the entrepreneur receives. The conclusion then returns to the question posed in Chapter One: What is the state for? As will be shown, the role of the state should not transcend prevention of man-made coercion, for only a minimal state can ensure maximum freedom that will in turn lead to what Hayek called "competition as an evolutionary and open-ended 'discovery procedure' of experimentation and trial-and-error" necessary for a smoother functioning of society.<sup>7</sup>

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- 1 Hayek, F. A. The Road to Serfdom, London, Routledge, 1944, p. 76
  - 2 Elder, L. "Arab World Poverty – Whose Fault?", Capitalism Magazine, November 18th 2001; In cases where a discussion of a particular book or an article takes place over several paragraphs, the reference for all the quotations from that particular work will be provided at the end of that section.
  - 3 Dunn, J. M. Modern Revolutions, Cambridge, Cambridge University Press, 1972, p. 1
  - 4 Watson, G. The Lost Literature of Socialism, Cambridge, The Lutterworth Press, 1998, p. 32
  - 5 Williams, W. Do the Right Thing, Stanford, Hoover Institution Press, 1995, p. 15
  - 6 Flew, A. "Education Against Racism: Three Comments", Journal of Philosophy of Education, 1987, vol. 21, no. 1, p. 136
  - 7 Sally, R. "Liberal Perspectives on International Trade and the Uruguay Round", The Journal of the London School of Economics Hayek Society, vol. 1, no. 1; See full text at [www.lse.ac.uk/clubs/Hayek/Ama-gi/Volume1/number1/liberal\\_perspectives\\_on\\_internat.htm](http://www.lse.ac.uk/clubs/Hayek/Ama-gi/Volume1/number1/liberal_perspectives_on_internat.htm)

## Chapter One

*Liberalism... is the supreme form of generosity; it is the right which the majority concedes to minorities and hence it is the noblest cry that has ever resounded on this planet. It announces the determination to share existence with the enemy; more than that, with an enemy which is weak. It was incredible that the human species should have arrived at so noble an attitude, so paradoxical, so refined, so anti-natural. Hence it is not to be wondered at that this same humanity should soon appear anxious to get rid of it. It is a discipline too difficult and complex to take firm root on earth.<sup>1</sup>*

- José Ortega y Gasset

According to the “realist” school of thought, International Relations is a discipline concerning relations between the main actors in the international arena – the nation-states. According to some of the main protagonists of this theory, what is of vital importance are not the internal characteristics of the state, but the anarchic structure of international relations and the lack of an overreaching supranational authority. This “state-centric” approach to international relations has been a dominant force in the theory of the discipline for much of the past century. But, with two world wars, in which tens of millions of lives were lost, and the Cold War, which brought the world close to utter destruction, the 20<sup>th</sup> century was one of the bloodiest on record. Indeed, only natural disasters in the previous eras approximate to the scale of destruction that humanity inflicted upon itself in this last century. Even more startling than the suffering resulting from these “inter-national” conflicts is the extent of suffering and destruction resulting from “intra-state” conflict. The Chinese, Soviet and German

treatment of their own citizenry resulted in deaths of tens of millions – deaths not at the hands of foreign invaders, but at the hands of their respective governments.

At the start of the 21<sup>st</sup> century, however, the realist paradigm is being challenged. The challenge comes from globalisation – a phenomenon that could have a profound impact on the development of international relations in the century to come. After all, what if the opening of the states to market forces can change the way in which states behave towards each other and the way they behave towards their own citizens? If so, what is the proper role of the state vis-à-vis the life of a citizen? There are, as will become apparent, diverging schools of thought concerning the way that globalisation should either be embraced or rejected. Certainly, as far as the realists are concerned, globalisation poses some serious problems to the independence of the state. Historically, increased economic interaction has often resulted in making countries more prosperous. But, it has also made them more dependent on other countries with regard to vital imports. How, the argument goes, can a country claim to be independent, if it relies on food imports from overseas?

But, there are different views of globalisation. One of them is the “libertarian” view, which embraces greater economic interdependence as a way in which countries can achieve most of their legitimate goals, such as economic prosperity of their people, without recourse to war. The libertarian or laissez-faire approach goes further though. It sees globalisation as a way of ensuring that the state is weaker vis-à-vis its own citizens. As will be seen below, this is an important consideration when looking at the 20<sup>th</sup> century as a whole. The arguments concerning differing visions of economic interdependence will be discussed below. Bearing the above discussion in mind, however, the thesis will start with the international system as it had been known throughout what Conquest called “a ravaged century”.<sup>2</sup>

The first part of this chapter will sketch how the state-centred system of the 20<sup>th</sup> century evolved. As will be shown, the WWI and the decades that preceded it played a significant role in the growth of the functions and powers of the state. But, the more powerful and absolute the state had become, the more was it able to misuse this power to inflict pain both domestically and internationally. What, then, *should* the proper scope of the state be? The second part of this chapter will look at those who believe that the powers of the state should be limited; that the state should not try to do more than is absolutely necessary for the preservation of social order; that it should do no more than protect, in Locke's words "life, liberty and property". This, they feel, is the clearest way to make sure that the tragedies of the last century remain unrepeatable. An alternative response, which is currently very influential and presents a partial return to the statism of the past, suggests that the best way to respond to globalisation is with increasing regulation and monitoring; that the only way that globalisation can be managed without producing massively destabilising social consequences is through increase of the power of the state. The debate between these two visions will be the hinge on which this thesis will turn in the chapters to come.

### **I. Rise and Fall of Laissez-Faire Liberalism**

*Barriers [in trade] result in isolation; isolation gives rise to hatred; hatred, to war; war, to invasion...*<sup>3</sup>

- Frederick Bastiat

On the 28<sup>th</sup> of June 1914, Franz Ferdinand, Archduke of Austria-Este and heir to the throne of the Austro-Hungarian Empire, was shot dead in Sarajevo. Within months, Europe was at war, ending a century of general peace in Europe. The lack of pan-European conflict that characterised the hundred years between the Congress of Vienna and the events in Sarajevo is a matter of historical record. This peace has been usually attributed to the military Balance of Power. This explanation, however, misses a vital point. Be it the very source of stability or merely a contributor to it, the role of the high level of interconnectedness of the European states during this period, facilitated by free trade and scientific progress, must not be underestimated. After all, the 19<sup>th</sup> century was a period of decisive departure from the mercantilist tradition, which dominated inter-state relations from the beginning of the 16<sup>th</sup> century to the end of the Napoleonic Wars. According to this tradition, exports were a source of wealth and imports were a source of impoverishment. By implication, it was assumed that trade benefits one state at the expense of another. This theory of trade was rejected by a Scottish philosopher, Adam Smith, who influenced political figures at the time into believing that rather than causing impoverishment and conflict, trade could well be seen as a source of enrichment and tranquillity among states. Not only was it mistaken to expect the government to be able to know how to organise the affairs between individuals better than they knew themselves, the philosophers of this period argued. Mercantilism was also misguided because it was incompatible with the right of individuals to freely interact in mutually profitable ways.<sup>4</sup>

In fact, following the conclusion of the Napoleonic Wars, European powers progressively abolished many of their protectionist laws and free trade grew. This new understanding of economics came to be known as *laissez-faire*. Among its most influential proponents in Great Britain were the Whigs. In the House of Commons,

the Whigs were the main opposition to the conservative aristocrats, known as the Tories. To emphasise their reformist programme and their opposition to the Tories, the Whigs started calling themselves "Liberals". It was these laissez-faire liberals, who initiated a process of change that culminated with the repeal of the unpopular Corn Laws in June 1846. Before their repeal, the Corn Laws kept the prices of food artificially high. This served the interests of the landed aristocrats, but harmed the poor. Accordingly, there was a saying amongst the British poor, "I be protected and I be starving".<sup>5</sup> Other proponents of laissez-faire included Richard Cobden, who spearheaded the protest against market restrictions through his Anti-Corn Law League. According to Cobden, the importance of free trade went beyond making the foodstuffs cheaper; it was a way towards peace. By de-politicising human relationships, Cobden believed, many causes of war would be eliminated. He wrote,

[Commerce] ...like a beneficent medical discovery, will serve to inoculate with the healthy and saving taste for civilization all the nations of the world... [Our merchandise] bears the seeds of intelligence and fruitful thought to the members of some less enlightened community... [Visiting merchant] returns to his own country the missionary of freedom, peace, and good government - whilst our steamboats... and our miraculous railroads... are the advertisements and vouchers for the value of our enlightened institutions.<sup>6</sup>

In trade, unlike in politics, it did not matter what the differences between peoples were. The stock exchange was a place where a Jew, an Arab, and a Christian could

do business together regardless of the divisive world outside. Their tolerance of one another's differences was driven by an enlightened self-interest. The fact that the trading centres of the world were for a long time also the places of greatest tolerance was not lost to contemporary observers. Renaissance Florence, for example, was one of the world's largest trading centres. Trade and traders were readily seen as the reason for Florentine strength and prosperity. Not surprisingly, therefore, contemporaries observed that a "Florentine who is not a merchant... enjoys no esteem whatsoever".<sup>7</sup> But, Florence was also a very tolerant place. Despite being labelled a mortal sin, punishable by death, homosexuality was so widespread that for many years the German euphemism for a homosexual was "Florentzer".<sup>8</sup> As in the case of Florence, Spinoza saw Amsterdam as the "most flourishing state, and most splendid city, [where] men of every nation and religion live together in the greatest harmony, and ask no questions before trusting their goods to a fellow-citizen...".<sup>9</sup>

In fact, the Netherlands led the way out of the medieval gloom and deprivation into which the world had fallen following the collapse of the Roman Empire. The economy of the latter was characterised by voluminous trade across both land and sea.<sup>10</sup> A system of law and order that the Romans introduced and network of roads, which much improved communications, aided the growth of trade to a significant degree. Empire's collapse was, predictably, accompanied by the collapse of trade and European economy in medieval times was characterised by autarkic agricultural production that was not conducive to economic growth.<sup>11</sup> Most peasants lived at subsistence level, with a bad crop often causing mass starvation. Small towns that did manage to develop were dominated by guilds, which prevented competition from arising. Sometimes, guilds organised military expeditions in the countryside in order to search for and physically destroy competing manufacturers.<sup>12</sup>



The Netherlands broke away from the medieval economic model. Possessing little land and limited natural resources, the Dutch turned to trade. They imported raw materials such as tin and copper and turned them into exportable products sought after throughout Europe. Subsequently, Bartlett writes, the Netherlands became Europe's centre of commerce. With commerce came shipping, which gave the Netherlands control of grain trade in the Baltic area. The growth of commerce necessitated developments in finance and insurance. "Scarcity in any part of Europe", Bartlett continues, "was quickly and accurately reflected in higher prices on the Amsterdam bourse and higher freight charges, factors that added to the city's prosperity".<sup>13</sup> But, the Dutch position as the dominant trading power was not to last. As Wilson explains, by the end of the 17<sup>th</sup> century taxes and protectionist tariffs grew to such extent that trade and commerce began to leave the Netherlands for other destinations.<sup>14</sup> The Netherlands' leading position in world trade was taken over by England and this remained so until the WWI.

Protectionism returned in the decades immediately preceding the WWI. Germany, like Britain, followed a low tariff policy until 1879. In that year, ostensibly in the pursuit of increased revenues, Bismarck instituted protective tariffs. Though some of the negative effects of protectionism were offset through bilateral agreements between Germany and her neighbours, the 1902 regulations meant a return to autarky.<sup>15</sup> In Britain, Joseph Chamberlain laid the groundwork for the return of protectionism with his idea of a protected trading area consisting of the territories belonging to the British Empire. This policy of "Imperial Preference" became an issue during the 1906 election, prompting Winston Churchill to ask, "What is the use of pretending that this greatest of all exporting nations has got to lie down pusillanimously behind a network of tariffs, cowering in our own markets, living by

taking in each other's washing, feeding like a dog on its own tail?"<sup>16</sup> It is perhaps worth mentioning that Chamberlain's Tories suffered a heavy defeat.

The tide of time, however, proved unstoppable. The evolutionary character of laissez-faire liberalism seemed unsuitable in an age of revolution. Britain, Dangerfield wrote, was "a nation which wanted to revive sluggish blood by running very fast and in any direction".<sup>17</sup> But, Germany was on a mission to achieve greatness as well and the resulting conflict came to have a profound impact on the course of human history. Faced with the enormity of human suffering that the war has exacted, it is easy to overlook the profound impact it had on the nature of the relations between states: on international relations. This is what Morgenthau wrote about the world of the 19<sup>th</sup> century,

Before 1914 there was freedom of travel without passports, freedom of migration, and freedom from exchange control and other monetary restrictions. Citizenship was freely granted to immigrants. Short term or long-term capital could move unsupervised in any direction, and these movements took any form. Direct foreign investments were common and welcome; securities of other countries were freely traded on most stock markets. Transfer of profits was unhampered and foreign investments were not confiscated after they have begun to show yield. Monetary standards in most countries were firmly established in gold... Gold coins of all countries found their way easily in all directions... It is also noteworthy that international financial and commercial transactions before 1914 were among

individuals (and corporations) and rarely among countries dealing as a whole... National boundaries were thus of small importance...<sup>18</sup>

This description sounds thoroughly modern, but it is not biased. Distinguished scholars of strikingly different philosophies, Keynes, Stolper, Schumpeter and A. J. P. Taylor among them, agree that 19<sup>th</sup> century was one of remarkable openness and interaction between states.<sup>19</sup> The reason for dwelling on this point is the contrast between the openness of the world in the 19<sup>th</sup> century and nationalist separatism of the 20<sup>th</sup> century. This contrast is readily discernible on both, international and domestic levels. Writing in the 1930's, Stolper observed with respect to the former, "The free movement of capital has ceased. So has the free movement of emigration. Men and money both lie shackled under the might of the state... The choking of free movement in manpower and manpower is being intensified by the choking of free movement of commodities". The changes in the international area were mirrored on a domestic level.

Just as the war for the first time in history established the principle of universal military service, so for the first time in history it brought national economic life in all its branches and activities to the support and service of state politics – made it effectively subordinate to the state... Not supply and demand, but the dictatorial fiat of the state determined economic relationships – production, consumption, wages, cost of living... [At] the same time, and for the first time, the state made itself responsible for the physical welfare of its citizens; it guaranteed food and clothing not only to the army in the field but to

the civilian population as well... Here is a fact pregnant with meaning; the state became for a time the absolute ruler of our economic life, and while subordinating the entire economic organisation to its military purposes, also made itself responsible for the welfare of the humblest of citizens...<sup>20</sup>

The end of the WWI did not bring a return to the pre-war disposition. Quite the opposite has, in fact, happened as the Great Depression only reinforced the statist tendencies among world's most powerful nations. This shift away from the free markets was exacerbated by the rise of two totalitarian ideologies: fascism and communism. As Mussolini observed, fascism stood against all the underlying principles of laissez-faire liberalism. "Against individualism", he wrote, "the Fascist conception is for the State... [It] reaffirms the State as the true reality for the individual". "The only liberty that can be a real thing", he continued, "[is] the liberty of the State". Therefore, Mussolini concluded, "everything is in the State, and nothing human or spiritual exists, much less has value, outside the State. In this sense Fascism is totalitarian... Outside of the State there can be neither individuals nor groups".<sup>21</sup>

As Ebeling writes, Keynesian economics played a vital role in the entrenchment of state's role in people's lives. Keynes proposed that the government could, by means of monetary and fiscal policy, adjust the levels of productivity and employment. If his theories were to work, however, governments had to have the power to restrict the flow of capital, raise taxes and tariffs, control imports and exports and manipulate exchange rates. All of these required a radical limitation of individual freedom. In fact, Keynes himself recognised that his theories were "much

more easily adopted to the conditions of a totalitarian state, than... under conditions of free competition and a large degree of laissez faire".<sup>22</sup> Keynes then correctly observed that his theories had a greater chance to succeed under the Nazis than in the West.<sup>23</sup> As was mentioned before, with the growth of governmental interference in the economy came the tremendous expansion of the welfare state. The welfare state originated in Germany, where Bismarck instituted it in order to appease the strong German socialist movement. With time it grew to include "direct income transfers between various groups in the society; state provision of retirement plans and health-care insurance and services; ...minimum wage laws, regulatory practices, licensing procedures, workplace health and safety standards subsidies and direct government expenditures for various goods and services...".<sup>24</sup>

All of these redistributive practices required massive tax revenues that obliterated any meaningful conception of private property rights and, concomitantly, individual autonomy and freedom. The individual became dependent on the state's good will. This good will could be lost if the individual were so unwise as to voice disagreement or criticise the government. The welfare state also distorted the economy by siphoning capital away from its most productive uses, producing economic distortions of which the stagflation of the 1970's was the farcical culmination. As a result, nations that adopted statist economic policies bankrupted their populace or, in the less extreme cases, simply mortgaged their future. Today it is clear that people with greater economic freedom are also more prosperous. It is these, economically free peoples, who score highly even on the UN's Human Development Index. According to this index, even among developing nations, more freedom means less poverty. Another well-known index, composed by the Cato and Fraser institutes, shows similar trends. It has Hong Kong in first place, followed by

Singapore, New Zealand, United Kingdom, United States, Australia, Ireland, Switzerland, Luxembourg, and the Netherlands. Canada comes in the 13<sup>th</sup> place, Germany in the 15<sup>th</sup>, Japan in the 20<sup>th</sup>, Italy in the 24<sup>th</sup> and in the France 34<sup>th</sup>. It will come as no surprise that China, with its significantly greater interference in the economy, comes only in the 81<sup>st</sup> place, while India comes in 92<sup>nd</sup> and in Brazil the 96<sup>th</sup> place. Russia, with its chaotic and corrupt transition from Communism, has come in the 117<sup>th</sup> place out of the 123 economies considered. Countries like Myanmar, Algeria, the Democratic Republic of Congo, Guinea-Bissau and Sierra Leone register at the very bottom of the scale.<sup>25</sup>

It would be inappropriate to end here, however. The 20<sup>th</sup> was not just a century of economic mismanagement, whatever its repercussions on the lives of the people across the world. Lest it be forgotten, the 20<sup>th</sup> century was also the bloodiest century in history. States have always waged war against each other, often for dubious reasons. But, by far the most appalling abuses in the 20<sup>th</sup> century were perpetrated by states, not against other states, but against their own populations. Here it is quite striking how different the 20<sup>th</sup> century was from the 19<sup>th</sup>. A comparison of abuses perpetrated by the Tsarist and Soviet regimes, for example, clearly illustrate this point. Unlike in Western Europe, where the rule of law took hold and was now respected, Russia lagged behind. As a consequence, its contemporaries regarded Tsarist Russia as the ultimate among tyrannies. Yet, in nearly a century between 1825 and 1917, less than 4000 people were executed throughout the entire Russian Empire for political reasons. The Communists exceeded that number in the first four months in power.<sup>26</sup> In fact, the killings in the USSR reached a point where it was no longer possible to even try to hide them. Thus, when Lady Astor asked Stalin, "How

long will you keep killing people?" Stalin replied, "The process will continue as long as... necessary".<sup>27</sup>

This is not to suggest that large-scale abuses of human rights did not happen before the 20<sup>th</sup> century, but the brutality of that century's greatest offenders is unprecedented. It is not coincidental that the intensification of brutality exercised by the governments against their own people went hand-in-hand with the state's acquisition of unprecedented power, much of which originated in the state's take-over of the economy. Nor is it coincidental that the states that appropriated for themselves absolute control over the economy – like Nazi Germany and Communist USSR – were also absolutely evil and murderous. The relationship between the oppressive power of the state and economic centralisation will be discussed at length in the chapters to follow.

The cost in human lives of the growth of the power of the state is not easy to calculate. But, some scholars have spent their entire lives to do just that. Rummel's sombre estimate is that in the 20<sup>th</sup> century approximately 203 million people have died because of war and democide.<sup>28</sup> However, aggression of the government against its own citizens accounts for over 169 million people killed. To put it differently, out of the above 203 million people killed, 83% victims were killed by their own governments.<sup>29</sup> Of these, some regimes were much more murderous than others. The USSR tops the table with almost 62 million killed between 1917 and 1987. Communist China comes second with over 32 million of its citizens killed between 1949 and 1987. Nazi Germany comes third with almost 21 million killed and Nationalist China comes in the fourth place with over 10 million killed. Next in line is Japan, followed again by China (areas controlled by Maoist forces between 1923

and 1949), Cambodia, Turkey, Vietnam, Poland, Pakistan, and Yugoslavia. The list, of course, continues.

The above statistic does, however, reflect only total numbers of people killed. When it comes to total number of people killed over the time that the regime was in power, the picture changes somewhat. Here Communist Cambodia tops the table with an 8.16% annual killing rate. There the Khmer Rouge killed at least 2 million people in less than four years! Cambodia is followed by Turkey under Atatürk with 2.64%, fascist Croatia with 2.51%, Communist Poland between 1945-1948 with 1.99%, “Young Turks” Turkey with 0.96%, Czechoslovakia between 1945-1948 with 0.54%, Mexico 1900-1920 with 0.45% and the USSR between 1917-1987 with 0.42%.<sup>30</sup> To recapitulate, the growth of the state during the 20<sup>th</sup> century is correlated with a huge increase in the aggression of the state against its own populace. Moreover, the frequency of the denial of liberty and, often, the right to life itself is correlated with the degree of totalitarianism. The greater the concentration of power in the hands of the government, the greater the chance of its misuse. As Rummel stated, “Power kills; absolute power kills absolutely”.<sup>31</sup>

## II. Two Types of Liberalism

*A state, then, has one of two ends in view; it designs either to promote happiness, or simply to prevent evil.*<sup>32</sup>

- Wilhelm von Humboldt

What, then, should the role of the state be? Bearing the abuses of the 20<sup>th</sup> century in mind, where should liberty end and government begin? “Liberty”, as J. S. Mill once



famously described it, "consists of doing what one desires".<sup>33</sup> But, such definition of liberty is meaningless, for it is clear that in a social setting no man can do what he wants without being constrained by natural obstacles and by the similar desires of other men. Liberty, at least in its classical form, is thus better understood as non-interference by other men. As Berlin put it, "The fundamental sense of freedom is freedom from chains, from imprisonment, from enslavement by others. The rest is extension of this sense, or else metaphor".<sup>34</sup> This classical or negative definition of liberty is quite different from the revisionist or positive one, which claims that men are not truly free if they are prevented, even if only by their circumstance, from fully realising their potential. In this view, therefore, the true essence of freedom must embody not just freedom from constraint but also an entitlement to certain things in life, be they material or not. Though Wilhelm von Humboldt was first to articulate this distinction between positive and negative liberties, Berlin's thesis is better known. Like Humboldt, Berlin came to see negative liberty as preferable.<sup>35</sup> With regard to the former he wrote,

I am normally said to be free to the degree to which no human being interferes with my activity... If I am prevented by other persons from doing what I want I am to that degree unfree; and if the area within which I can do what I want is contracted by other men beyond a certain minimum, I can be described as being coerced, or, it may be, enslaved. Coercion is not, however, a term that covers every form of inability. If I say that I am unable to jump more than 10 feet in the air, or cannot read because I am blind... it would be eccentric to say that I am to that degree enslaved or coerced. Coercion implies the

deliberative interference of other human beings within the area in which I wish to act.<sup>36</sup>

Clearly, in this view, freedom is merely political in nature. Anything beyond it, such as “economic freedom” and “economic slavery”, is not covered by the term. Though it is self-evident that if A is too poor to afford a loaf of bread or anything else that is not legally banned, A is not free to have it, this inability cannot be described as a lack of freedom in the negative sense. Of course, if A believes to have been prevented from receiving what is his due, A can truly be described as being deprived of his liberty. The validity of this statement, however, depends on A’s understanding of the functioning of a particular social and economic system. In such cases, it is up to A to prove that the harm done can, in fact, be ascribed to an external human agency. As Rousseau put it, “The nature of things does not madden us, only ill will does”.<sup>37</sup> Positive liberty, on the other hand,

...derives from the wish on the part of the individual to be his own master. I wish my life and decisions to depend on myself, not on external forces of whatever kind. I wish to be instrument of my own, not of other men’s, acts of will. I wish to be a subject, not an object... I wish to be somebody, not nobody; a doer – deciding, not being decided for...I wish, above all, to be conscious of myself as thinking, willing, active being, bearing responsibility for his choices... I feel free to the degree that I believe this to be true, and enslaved to the degree that I am made to realise that it is not.<sup>38</sup>

Clearly, in this instance freedom is comprehended in a fundamentally different manner. Here freedom means freedom not just freedom from the oppression by other men, but also freedom from nature. This freedom from nature can mean as little as the tackling of a particular kind of natural obstacle, like A's inability to pay for his healthcare, or as much as a perfect realisation of A's "true" potential. The presence of the self, as A knows it, and "true" self, perhaps understood as an attainment of an ideal state of A's being, assumes that A might not necessarily be aware of the latter's existence. This, in turn, assumes that there might exist an "impartial" authority that "knows better".<sup>39</sup> Of course, such departure from purely negative understanding of freedom has both economic and social implications. In the economic sphere, A's attainment of A's true potential can raise costs that have to be met by others. In the political sphere, this differentiation between "perfect" and "imperfect" conceptions of the self raises a prospect of the social insistence on a particular, subjective, definition of what is "best" for an individual – a concept that is distinctly illiberal in both definition and practice.

This, then, is the Berlinian distinction between the negative and positive types of liberty. The negative kind consists of A not being prevented from attainment of his goals by human agency, while the positive kind assumes an attainment of a self-mastery unconstrained by nature. Of course, Berlin has been criticised for the shortcomings of his distinction between the two kinds of liberty. Murray Rothbard and Jeffrey Friedman, to give just a couple of examples, point out some of the problems with Berlin's definitions.<sup>40</sup> In fact, Berlin himself was prone to change his mind with regard to both negative and positive liberty and to fluctuate between espousing the virtues of the free market at one point and criticising it for inhumanity at another. But, Berlin seems to provide a good, if not excellent, starting point for

this discussion, not least because so many other scholars have used his terminology in the past. Raymond Aron, for example, saw liberty in terms similar to Berlin's. He wrote,

[Among] the freedoms proclaimed by the Atlantic Charter there are two that would have been ignored by traditional liberals – freedom from want and freedom from fear – because want and fear, hunger and war, were inherent to human existence throughout the centuries. That poverty and violence have been as of now eliminated no one believes: that one day they might be why not hope? That the ambition to eliminate them is new and shows an arrogance that... Tocqueville would not have shared or approved is beyond doubt. For this ambition emerges from equating the tyranny of things with the tyranny of men... only men can deprive other men of the right to select a government and worship a god. But what men are responsible for and what men can conquer want and fear?<sup>41</sup>

Of course, these different understandings of liberty were mirrored in the development of a political system called *liberalism*. As Gray wrote, despite the variations within it, liberal tradition shares four commonalities. Firstly, liberalism is individualistic in its emphasis of the moral primacy of the individual over the collective. Secondly, it is egalitarian in its conferment of equal moral status on all individuals. Thirdly, it is universalist in its affirmation of moral unity of all people, according only secondary importance to the peculiarities of their cultural

development. Fourthly, it is meliorist in its belief in the improvability of social and political arrangements.<sup>42</sup>

Gray sees the roots of the modern conception of liberty in antiquity. Liberty for the Greeks, however, was less individualistic than its modern offshoots. The concept of freedom applied primarily to the community, in the governance of which the individuals were allowed to participate.<sup>43</sup> Though this “democratic” form of governance was in itself remarkable, individuals were by no means immune from the interference of the community. Although it would be wrong to speak of the ancients as truly liberal, it was during this time in human history that the Sophists articulated their belief in the universal equality of men, and the legitimisation of law and state through social contract. They also believed that the only legitimate outcome of law was, “the security of the individual and [that] the functions of the state... [were] all negative functions having to do with the prevention of [man made] injustice”.<sup>44</sup>

It is interesting to observe that two and a half thousand years later the proper scope of government is once again being debated. This very thesis wishes to defend the notion of negative functions of the government against those who would have it otherwise. Like negative liberty, positive liberty too has its precursors. In antiquity, Plato led the original backlash against the tolerance and openness of proto-liberal Athens. His critique contrasted Athenian imperfections with an ideal society. Not surprisingly, this ideal society did possess some features of the illiberal, regulated and militaristic Sparta. That said, the ancient roots of liberal tradition would be incomplete without the highly individualistic Roman legal tradition. Based on the equality of its citizens, Roman law specifically outlawed discrimination of citizens based on their social rank. Likewise, the Roman statutes pertaining to private property had a profound impact on the Western property laws. In addition,

Christianity, which is sometimes seen as an impediment to liberal society, might similarly have contributed to the growth of nascent liberalism by emphasising the equality of all souls and the individual's struggle for salvation.<sup>45</sup>

In modern European intellectual history, Thomas Hobbes enjoys a reputation for advocating authoritarianism. But, his understanding of the "State of Nature" and man's inalienable right to self-preservation are individualist and egalitarian in the liberal sense. Despite these individualist pretensions, Gray cautions, Hobbes was not a liberal, because of his rejection of meliorism and the possibility of human progress. Locke, therefore, is often presented as the first person to articulate a coherent liberal philosophy.<sup>46</sup> According to Locke, divine or natural law protects the right to liberty and private ownership of property. As he wrote, "Man... hath by nature a power... to preserve his property – that is, his life, liberty, and estate – against the injuries and attempts of other men".<sup>47</sup> Moreover, because all men are "by nature all free, equal, and independent", none can be deprived of his liberty "and subjected to the political power of another, without his own consent".<sup>48</sup> Of course, in Locke's view liberty and private property are inseparable. Therefore, the proper scope of government's responsibility must be their protection. He wrote, "The great and chief end, therefore, of men's uniting into commonwealths, and putting themselves under government, is the preservation of their property".<sup>49</sup> In practice, Locke's influence can still be seen in the USA. The Constitution of Alabama, for example, claims "The sole object and only legitimate end of government is to protect the citizen in the enjoyment of life, liberty, and property, and when the government assumes other functions, it is usurpation and oppression".<sup>50</sup> Scepticism regarding the power of government has been a part of the American culture since the War of Independence. Not surprisingly,

therefore, the American Declaration of Independence, like Locke, based citizens' rights in God and not in the arbitrary decisions of the government.

By the end of the 18<sup>th</sup> century, the two strands of liberalism could not longer coexist in a frictionless way. As long as the two opposed royal absolutism, their differences remained submerged. The events surrounding the French Revolution changed all that. The question was no longer how to achieve liberty, but what to do with it. As Bethell writes, before the French Revolution, most people accepted the human condition as permanently flawed and imperfect. The people were, he argues, resigned to live in "present imperfect". With the closing of the 18<sup>th</sup> century, however, this "present imperfect" was replaced with "future perfect". "The imperfection of human nature", Bethell writes, "was [now] thought to be only temporary. A greater human perfection was to be expected in the future. This lay at the heart of the idea of progress – a new idea in the world, and a dangerous one".<sup>51</sup> In France, Diderot and Condorcet emphasised human reason and almost blind belief in human progress. In Britain, William Godwin mirrored their belief in the perfectibility of mankind. Ignoring the basic tendencies associated with man's humanity, the above philosophers believed that society could be fashioned into a predetermined image by appealing to human reason. There was nothing reason could not solve. As Godwin wrote in a manner typical of the time, "It is impossible that a man would perpetrate a crime, in the moment when he sees it in all its enormity".<sup>52</sup> Obviously, since then Europe has learned otherwise. As Berlin pointed out, this blind faith in progress was soon transformed into expectation of progress. This expectation in turn acquired an aura of inevitability that was to prove immensely damaging in its Communist and Fascist forms.<sup>53</sup> Clearly, the fault of the above approach lay in the super-imposition on human conduct of subjectively defined concepts such as the "forces of history"

and “progress”. The result of this super-imposition was a profoundly anti-liberal treatment of individuals, which, far from being treated as autonomous, became tools in the hands of the self-appointed overseers of “progress”.

The central cause of the deeply anti-liberal outcomes of the above philosophies rests in their denial of the existence of certain immutable human characteristics and impulses that may be called “human nature”. This ultra-reasonableness brought with it a belief that mankind could be moulded into a particular shape guaranteeing a particular outcome.<sup>54</sup> Helvetius, for example, explained that imperfect human nature could be “reformed” through governmental regulation.<sup>55</sup> G. V. Plekhanov, the founder of Russian Marxism, was so impressed by Helvetius that in 1895 he wrote an essay on the latter’s work. In that same year he befriended a young Russian revolutionary, V. I. Lenin.<sup>56</sup> Like Helvetius, Godwin too spoke of a process of “improvement of mankind”, through which men could be “made”.<sup>57</sup> Yet, it would be wrong to think that Godwin’s attraction to social engineering was inspired out of his love for his fellow men. He had a very low opinion of them, famously asserting that the British lower classes had “the contemptible insensitivity of an oyster”.<sup>58</sup> It is perhaps for this reason that he thought a through remake of mankind was in order.

In fact, the belief in human malleability and disdain for humanity seem to go hand in hand. George Bernard Shaw, for example, saw the working classes as “detestable” people, who “have no right to live”.<sup>59</sup> Shaw got to see social engineering in practice and after his return from the USSR he wrote, “Putty is exactly like human nature. You can twist it and pat it and model it into any shape you like; and when you have shaped it, it will set so hard that you would suppose that it could never take any other shape on earth”. This was in 1931 – a year before Stalin decided to remodel



and reshape the demography of the Ukraine by withdrawing food from its population. Following is an eyewitness account of what was to happen.

In the spring of 1933 one third of the people in the village were starving. The others had a little food and ate once a day to keep from swelling. ...In March 1933 all the people from the collective farm went to the authorities, asking for bread. They were not even allowed to enter the courtyard. On March 28, 1933, we were shocked by the news that Myron Yemets and his wife, Maria, had become cannibals. Having cut off their children's heads, they salted them away for meat. ...Chairman Boyko arrested them himself, and about six hours the GPU began to question them. "Who has so cunningly persuaded you to do this...? You know that this is the work of our enemies to cast dishonour upon our country, the Soviet Union, the most advanced country in the world. ...Myron and Maria were sentenced to ten years in prison. However, they were shot about three months later because even the Soviet government was ashamed to let them live."<sup>60</sup>

Yet, as Shaw saw it, Soviet government "has shaped the Russian putty very *carefully*... and it has set hard and produced quite a different sort of animal [emphasis added]".<sup>61</sup> In retrospect, it is clear that the Soviet government did not produce a "different sort of animal", although it clearly forced some of its people to descend to animal savagery. Rousseau was yet another misanthrope led astray by the idea of man's perfectibility. As he famously said to James Boswell, "Mankind disgusts me".<sup>62</sup> This disgust clearly applied to humanity in its present form.

Therefore, like Godwin and Shaw, Rousseau set his sights on a creation of a perfect commonwealth. Not surprisingly, his design required individuals to surrender all their rights “without retaining a remnant of them” to the will of the *demos* or *volonté générale*. Rousseau hoped for his system to work through an equal sacrifice of liberty by all the members of the commonwealth.<sup>63</sup> He wrote,

Whoever refuses to obey the general will shall be compelled to it by the whole body: this in fact only forces him to be free. ...Those who dare to undertake the institution of the people must feel themselves capable, as it were, of changing human nature, of transforming each individual... into a part of a much greater whole; ...of altering the constitution of man for the purpose of strengthening it.<sup>64</sup>

Rousseau’s vision, like Plato’s, was plagued by his failure to appreciate the differing and often conflicting goals among the people. Ultimately, Rousseau’s desire to create a paradise on earth meant that individual freedoms, which he himself believed to be inalienable, perished in the bonfire of liberties called the French Revolution – an upheaval that Rousseau contributed to creating through his writings.

The decades following the French Revolution saw the return of liberty in its negative sense. Constant tried to re-create the lost balance between individual autonomy on the one hand and social intervention on the other along these classical lines. Thus, in direct contrast with Rousseau, Constant explained his understanding of freedom in purely negative terms. As he saw it, each citizen had the right to proper treatment under law, which excluded arbitrary arrest, detainment, execution, and maltreatment. He had the right to express his opinion and to choose his employment.

He had the right to private property - to its enjoyment as well as its abuse. He could move without hindrance or explanation and could associate with anyone for whatever reason. He had religious liberty and the right to influence the government, either through the ballot box or through petition.<sup>65</sup>

Unlike Constant, whose concern was primarily directed at the terror of revolution, Tocqueville feared the majoritarianism he encountered in the USA.<sup>66</sup> He wrote, "The greatest dangers for the American republics proceed from the omnipotence of the majority". As he then elaborated, the power of majority in the USA knows no impediments so "...as to make it heed the complaints of those whom it crushes upon its path. This state of things is harmful in itself and dangerous for the future". According to Tocqueville, people did not have the right to do "anything". The very notion of unrestrained democracy was "impious" and "detestable" to him. Clearly, Tocqueville felt that majoritarianism could be used in ways incompatible with individualism and freedom. He, therefore, argued that the righteousness of an act was not simply determined by a decision of a majority, but also by a clear conception of justice, which the majoritarian decision should reflect. He wrote, "A general law, which bears the name of justice, has been made and sanctioned, not only by a majority of this or that people, but by a majority of mankind. The rights of every people are therefore confined within the limits of what is just". With such a universal notion of justice in mind, Tocqueville felt, it is possible to refuse to obey a majority decision. This ability to rely on a concept of justice higher than a decision of majority is especially important, because people may behave in self-interest that is often incompatible with justice.

The rights of minorities, Tocqueville insisted, had to be protected. "A majority taken collectively is only an individual, whose ...interests are opposed to

those of another individual, who is styled a minority. [A] ...man possessing absolute power may misuse that power by wronging his adversaries, why should not a majority be liable to the same reproach", he asked. With a gift of clairvoyance, Tocqueville goes on to narrate what was become a central theme of the American constitutional debate, the innumerable clashes between the American right and left, and a source of an age long philosophical debate about the proper scope of individual liberty and governmental interference therein.

In my opinion, the main evil of the present democratic institutions of the United States does not arise, as is often asserted in Europe, from their weakness, but from their irresistible strength. I am not so much alarmed at the excessive liberty, which reigns in that country as at the inadequate securities which one finds there against tyranny. An individual or a party is wronged in the United States, to whom can he apply for redress? If to public opinion, public opinion constitutes the majority; if to the legislature, it represents the majority and implicitly obeys it; if to the executive power, it is appointed by the majority and serves as a passive tool in its hands. The public force consists of the majority under arms; the jury is the majority invested with the right of hearing judicial cases; and in certain states even the judges are elected by the majority. However iniquitous or absurd the measure of which you complain, you must submit to it as well as you can... I do not say that there is a frequent use of tyranny in America at the present day; but I maintain that there is no sure barrier against it, and that the

causes which mitigate the government there are to be found in the circumstances and the manners of the country more than in its laws.<sup>67</sup>

In the British Isles, the Scots responded to the nascent radicalism of Diderot and Condorcet. Unlike the French radicals, for whom liberalism came to rest in the blind reliance on reason, the Scots defense of liberty rested in the fact of man's imperfect knowledge.<sup>68</sup> As David Hume, one of the Scots' most pre-eminent philosophers, wrote, "[I suspect] that the world is still too young to fix many general truths in politics which will remain true to the latest posterity... [Our] art of reasoning is still imperfect in this science, as in all others, but we even want sufficient materials upon which we can reason".<sup>69</sup> Unlike other, more supercilious scholars, Hume reasoned that the imperfection of human knowledge militated against social programmes, the results of which one could not be sure. He wrote, "It is not fully known, what degree of refinement, either in virtue or vice, human nature is susceptible of; nor what may be expected of mankind from any great revolution in their education, customs or principles".<sup>70</sup>

As can be seen, instead of relying on transformation of men into something they were not, Hume thought of ways to restrain men's shortcomings and even to channel these shortcomings in beneficial directions. He thus determined that stability of possessions, transfer of property by consent, and keeping of promises were the only areas of governmental enforcement. This was necessary because of man's limited goodness, intellectual limitations, and scarcity of resources.<sup>71</sup> In keeping with the aforementioned intellectual scepticism, Hume's philosophy was not based on assumptions other than those readily observable in human conduct throughout the ages. He wrote, "[It] is more easy to account for the rise and progress of commerce

in any kingdom, than for that of learning... Avarice, or the desire of gain, is an universal passion, which operates at all times, in all places, and upon all persons".<sup>72</sup> In contrast, he saw the "love of knowledge" limited in influence, for it required "youth, leisure, education, genius and example".<sup>73</sup> In politics, Hume fancied himself a sceptic of over-generalisation. In economics, however, he permitted himself to make more general observations. His reason was that whilst in economics one could usually rely on human search for gain to make human action patterned and predictable, in politics one had to rely on other, less predictable variables. This distinction will be further explored below.

Millar and Ferguson influenced the Scottish intellectual scene as well. Their particular contribution consisted of establishing a link between private property and limited government. As the two thinkers opined, only societies with private property, no matter how unequally distributed, could sustain liberty and justice. Having been influenced by the experiences of the English Civil War, both saw the question of inviolability of private property as central to the conflict. In other words, the institution of private property became a guarantee against the tyranny of the state. As Millar wrote, "The farther a nation advances in opulence and refinement... [the more] it has occasion to employ a greater number of merchants, of tradesmen and artificers; and the lower people, in general, become thereby more independent in their circumstances, they begin to exert those sentiments of liberty which are natural to the mind of man, and which necessity alone is able to subdue".<sup>74</sup>

The contributions of the above scholars aside, the best known of the thinkers of the Scottish Enlightenment is Adam Smith. Smith was the first to determine that society developed in stages, the culmination of which was the free market system. He also determined that economic changes and political changes were interrelated and

that the free market system “found its natural counterpart in a constitutional order...[that guaranteed] civil and political liberties”.<sup>75</sup> He wrote,

All systems either of preference or of restraint, therefore, being thus completely taken away, the obvious and simple system of natural liberty establishes itself of its own accord. Every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way, and to bring both industry and capital into competition with those of any other man... The sovereign is completely discharged from a duty, in the attempting to perform which he must always be exposed to innumerable delusions, and for the proper performance of which no human wisdom or knowledge could ever be sufficient; the duty of superintending the industry of private people, and of directing it towards the employments most suitable to the interests of the society.<sup>76</sup>

Thirdly, Smith recognised the individual and his actions as central to “every social explanation”.<sup>77</sup> In practice, Smith’s view was similar to that of Lady Thatcher, who stated, “There’s no such thing as Society. There are individual men and women, and there are families”.<sup>78</sup> What he meant and, arguably, what she meant, was that the “social” element of human existence was really a result of independent actions of innumerable individuals selfishly attending to their respective ends. As Smith wrote, “It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves not to their humanity but to their self love”.<sup>79</sup>

Smith's individualism was linked with his conception of "natural liberty", where every man was entitled to the greatest liberty compatible with the similar liberty of other men.<sup>80</sup> Noticeably, Smith's "natural liberty" meant freedom only from hate and oppression. It denied equality except for equality before God and under the law. As Hayek observed, it is probable that this type of equality is the only equality possible in a system that both relies on the rule of law and at the same time attempts to preserve the basic tenets of liberalism.<sup>81</sup> And yet, this is precisely the direction the philosophy of liberty has moved in following the period of Scottish enlightenment. The liberal pendulum swung once more in the direction of excessive rationalism that was to provide the intellectual roots for Nazi and Communist tyrannies. Not for the first time, it was the good intentions of the intellectuals like Bentham and J. S. Mill that set the course of "revisionary liberalism" and replaced the "classical liberalism" of Constant, Tocqueville, and Smith.<sup>82</sup>

Although, as Gray shows, Bentham's philosophy retained many of the ideas of the classical liberals, including the necessity for free trade, his utilitarianism profoundly radicalised the role government played in the lives of private individuals. The Scots understood utility in terms of "spontaneous emergence of social institutions" and used it to assess social systems in their entirety. Bentham, on the other hand, used it to evaluate "specific measures of policy". Bentham's abandonment of general maxims as practical guides for the decision-making of the lawmakers and his insistence that social institutions could be subjected to "rational redesign", amounted what Hayek called the "constructivist fallacy".<sup>83</sup>

Though the interventionist implications of Bentham's departure from classical liberalism are obvious, it was J. S. Mill who completed the above transformation from the *laissez faire* approach of governance to that of statism of



Godwin and French philosophers of the eighteenth century. To be sure, parts of Mill's work restated the classical liberal beliefs. "The only purpose for which power can be rightfully exercised over any member of a civilised community", he wrote, "is to prevent harm to others. His own good, either physical or moral, is not a sufficient warrant".<sup>84</sup> And again, "If all mankind minus one were of one opinion, and only one person were of the contrary opinion, mankind would be no more justified in silencing that one person, than he, if he had the power, would be justified in silencing mankind".<sup>85</sup> Here Mill's understanding of liberty is clearly negative. Then, a change occurs.

Mill makes a distinction between production and distribution in economic life, such that distributive arrangements are held to be altogether a matter of social choice, which suppresses the classical liberal insight into the character of economic life as comprising a whole system of relations among which productive and distributive activities are inextricably mixed. It is this erroneous distinction, rather than Mill's exception to the rule of *laissez faire* or his occasional flirtations with socialist schemes, which marks his principal departure from classical liberalism and which constitutes his real connection with liberal and Fabian thinkers. In making this distinction, Mill ...created a system of thought which legitimated the interventionist and statist tendencies which grew ever stronger throughout the latter half of the nineteenth century in England. Significant as an influence in leading Mill's own thought in an illiberal direction was French Positivism and, especially, the work of August Comte..., whose

historicist and elitist conceptions exercised a strong hold over Mill...

In this respect... Mill may be said to have imparted into English thought the illiberalism of the French ideologues.<sup>86</sup>

Within forty years of Mill's death, there ended a century of progress and achievement. Mill's departure from classical liberalism brought to an end its theoretical development, while the WWI brought to an end its practical application. Today people live in a world that was born out of the two World Wars. Totalitarian ideologies of the past, combined with the emergence of the powerful Leviathans necessary to fight total wars of the twentieth century have created a society, which impacts the lives of individuals on a scale unprecedented only a hundred years ago. As Ebeling writes, people today are unable to move freely because of the government- issued passports. The government also decides which countries its citizens can enter. Likewise, the people's ability to make purchases overseas is limited through taxation. Many products are forbidden from being imported altogether. Domestically, the state limits the variety of products available to consumers through safety and fairness regulations and the number of products imported from overseas is limited by import quotas. People are asked to send their children to state-approved schools and mandated to accept state pension schemes. Before they can pursue a career, people must be certified and licensed by the state. When hiring, they have to observe racial and gender quotas and pay them the government-mandated minimum wage. In addition, their freedom of speech is constrained through government-enforced political correctness.<sup>87</sup>

It is true that the intellectual renaissance of classical liberalism did occur under the stewardship of Ludwig von Mises, Friedrich von Hayek, Henry Hazlitt,

Milton Friedman, Israel Kirzner, James Buchanan, Robert Nozick, Murray Rothbard and many others. It is also true that the collapse of Communism and the contributions that Prime Minister Thatcher and President Reagan made to the minimisation of the state interference in the economy have begun to swing the pendulum. However, it would be mistaken to assert that the relationship between the individual and the state is anywhere near the classical liberal ideal or even the actuality of less than hundred years ago.<sup>88</sup> Clearly, the business of redefining the relationship between the state on one hand and individual freedom on the other hand remains unfinished. Some of the people who share this view have even assumed a new name – libertarians. Libertarianism is a broad church, but its basic tenets are as follows. When it comes to the economy, the state should focus on the protection of private property, enforcement of contracts and prevention of fraud. The state should also intervene when life and liberty of individuals are threatened. But, when it comes to private morality, the state should stay out of individual lives altogether.<sup>89</sup>

But, it is important to mention that the libertarians are not the only people trying to change the nature of the interrelation between the individual and the state. If anything, a counterattack is already under way to stop libertarian ideas from coming to dominate social policy.<sup>90</sup> The most recent and perhaps the most influential strand of this counterattack both in domestic politics and, increasingly in international relations, is what is usually called the 'Third Way'. The Third Way's potency rests in its ability to convey a message of moderation. It proclaims to have found a way to combine the efficiency and the economic growth of the free market with "social virtues" that the market is said to be lacking. It claims to utilise the best about both, capitalist and socialist systems. It is being promoted as a way that will give

capitalism “a human face”.<sup>91</sup> Whether this is true, will be a subject of the chapters to come.

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89 Libertarian philosophy will be looked at in greater detail in the eighth chapter.

90 Practical application of libertarian ideas has also been called neo-liberalism, which in the context of this thesis means – once again – a form of 19th century laissez-faire liberalism. Both doctrines are the practical actualisations of the philosophical concepts of classical liberalism and negative liberty. The modern roots of these philosophical concepts are to be found in the works of the Scottish Enlightenment. These, in turn, are not to be confused with the works of the Continental Enlightenment, which popularised the revisionist or positive type of liberty. As the rest of this thesis will show, this positive understanding of liberty found its practical actualisation in Nazism, Communism and contemporary "Liberalism".

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## Chapter Two

*History tells us that, not only is it unwise to try to hold back innovation, it is also not possible over the longer run. Generation after generation has experienced episodes in which those rendered technologically obsolescent endeavored to undermine progress... In the end, these attacks did not prevail, and long-term advances in standards of living resumed. Nonetheless, the campaign to expand free trade is never won. It is a continuing battle.<sup>1</sup>*

- Alan Greenspan

The previous chapter showed how the WWI brought about the end of the liberal order and of the separation of the individual and the state. It had also ended the high degree of interaction between the states. The new order was characterised by varying degrees of oppression of the individual in the domestic sphere and protectionism and war in the international sphere. The liberal order of the 19<sup>th</sup> century was governed by the ideas of the Scottish Enlightenment. Knowledge and reason were understood to be limited and liberty was valued, because it ensured the emergence of competing ideas. Complementing this intellectual market place was the free market economy. Its benefits were self-evident and laissez-faire found its main support amongst the poor people who saw it as the only means to better their lot. Not surprisingly, aristocrats, whose livelihoods depended on protectionism, spearheaded the opposition to the free market.

Eventually, the free market triumphed, but it was not to last. The worst abuses against the life and dignity of the people throughout the 20<sup>th</sup> century happened under those regimes that rejected the gradualism of the market process.



Neither Marxism nor Communism accepted the limitations on human wisdom and strove to achieve perfection in human affairs through regulation and outright compulsion. Statism and social engineering by means of which the idealists operated finally began to be reversed in the 1980's. Neither Thatcher nor Reagan went far enough in reversing the scope of the state. In fact, they often used the power of the state to suit their own goals. But, they have initiated the process of reform, not least by changing the language of political discourse. As Reagan stated, "In this present crisis government is not the solution to our problem; government is the problem".<sup>2</sup> Thus, along with the defeat of Communism, the greatest achievement of Thatcher and Reagan must rest in reinstating the classical liberal concept of limited government as an alternative to the statist vision that has dominated the 20<sup>th</sup> century.

But, more than a decade since the fall of Communism, can it really be said that classical liberalism has made much headway? If so, how does it work in practice? If not, what hindered its progress? And, how does globalisation fit into all of this? The first part of this chapter will look at the different ways in which globalisation affects the political, economic, and cultural spheres. Globalisation, as it is generally understood, involves increasing economic interaction between progressively more compatible free market economies. Its is driven in large part by the collapse of competing socio-economic ideologies and a number of important advances in technological development. Increased competition, which has resulted from increased economic interaction has lowered the costs of living and increased prosperity. This increased competition was not the only effect of globalisation, however. Markets, in the words of Alan Greenspan, have also "rendered many forms of government intervention ineffective". These new inhibitions on the powers of the state are welcome news for many, but a source of unease for others. As will be

shown, this opposition to globalisation is growing. The second part will look at globalisation juxtaposed to the free market ideal. As will be shown, though it is true that many tariffs have been rescinded, much protectionism remains. Environmental and health and safety regulations, and policies that aim to protect the “common good” and “fair” trade, serve to protect domestic economies from foreign competition. The contemporary international economic order can, therefore, be at best described as interventionist or mixed.

### **I. Globalisation: Return of the Liberal Order?**

*In many important respects, the past half-century has represented an uneven struggle to repair the close linkages among national economies that existed before the First World War.<sup>3</sup>*

*- Alan Greenspan*

International Relations emerged as a separate academic discipline following the conclusion of the WWI and grew under the influence of the events that led to the WWII. As has been mentioned in the first chapter, following the WWI, the state grew quite exponentially and “realism”, which came to dominate the discipline, reflected this growth. The realists likened international relations to a billiard game, where the constituent units of the system, the nation-states, were, like the billiard balls, independent. Similarly, national sovereignty, like the impenetrable shell of a billiard ball, insulated the states from outside interference.<sup>4</sup> As for the interaction between these units, the realists oscillated between the “classical” realist position that ascribed its belligerent character to greed and selfishness intrinsic to human nature,

and the neo-realist position that blamed frequent international conflict on the conditions inherent in the anarchical structure of the international system itself. This anarchical structure was characterised by the lack a global enforcer of rules and peaceful solutions of disputes that arose out of conditions of scarcity of resources, and the existence of war as an effective way of solving of these disputes.<sup>5</sup>

Concomitantly with these political aspects, realism saw the economic functioning of the nation state along nationalist lines.<sup>6</sup> As Gilpin writes "...central idea [of the nationalist school was] that economic activities are and should be subordinate to the goal of the state building and the interests of the state".<sup>7</sup> Some authors have pointed out that the submission of prudent conduct of the economic affairs to the national interest inevitably involved a painful choice between the provisions of "guns and butter".<sup>8</sup> In other words, increased military spending inevitably materialised at a cost to welfare provisions and an increase in inflation and debt. The realists responded to this criticism by arguing that a strong state is in fact the only guarantor of the welfare of its citizens.<sup>9</sup> Realists were able to make this claim, because of their belief that, like in the political relations among states, the economic interactions between states are essentially based on a zero-sum principle. The net gain of one state, the theory mirrored mercantilist tradition, resulted in a net loss of another state.

In the 1970's, however, there began to emerge developments that were seen as challenging to realism's continued dominance. A number of scholars, Rosenau, Keohane and Nye among them, began to point out aspects of *interdependence* among the nation-states.<sup>10</sup> Their studies focused on the interactions among developed nations, where the advancements in transport and communications grew fastest. According to this theory, interdependence undermined the sovereignty of the nation-

state, thus depriving the state of both, its importance and its singularity as a constituent unit of international relations. This new theory was given considerable credence by a number of international developments. Firstly, in 1971, the growing expenditure on the war in Vietnam and on the welfare programmes of his predecessor, forced US President Richard Nixon to devalue the US currency by abandoning one of the main pillars of the Bretton Woods economic order, namely the convertibility of the US dollars into gold. A measure that was intended to guarantee post-WW2 financial stability thus ended. The exchange rates, which were under the Bretton Woods system intended to move within a thin fluctuating band sanctioned and guaranteed by the International Monetary Fund (IMF), were left to float freely.

Secondly, in 1973, the Organisation of Petroleum Exporting Countries' (OPEC) decided to quadruple the prices of oil. The impact of this measure on the world economy cannot be understated, since the panic it created plunged the world into recession and caused unprecedented rates of inflation in both the USA and in the European Economic Community (EEC).<sup>11</sup> Both of these decisions clearly signified how decisions taken by one state or a group of states affected the rest of the world. Whatever the arguments the interdependence school put forward, the true interconnectedness of the nation-states remained partially obscured during the remainder of the Cold War. This was so, because the Cold War, especially after the demise of the Nixon-Kissinger détente with the USSR and the onset of the so-called Second Cold War, was conducted according to core realist premises. Following the defeat of communism in 1989 and the collapse of its principal protagonist, the USSR, however, global interdependence re-emerged under a new name: globalisation. But, what is it? Greenspan writes,

Globalization... involves the increasing interaction of national economic systems. Of necessity, these systems are reasonably compatible and, in at least some important respects, market oriented. ...Globalization ...has been driven importantly by advances in technology. By lowering the costs of gathering information and conducting transactions, new technologies have reduced market frictions and provided significant impetus to the process of broadening world markets. Expanding markets, in turn, have both increased competition and rendered many forms of government intervention either ineffective or perverse. The recognition of this prosperity-enhancing sea-change in world markets and ...of the counterproductive consequences of pervasive intervention has led many governments to reduce tariffs and trade barriers and ...to deregulate markets. These actions themselves have further promoted the very globalization that, interacting with advancing technology, spurred the deregulatory initiatives in the first place. The result of this process has been an advance and diffusion of technical change that has raised living standards in much of the world.<sup>12</sup>

So, as Greenspan confirms, over the past decade globalisation has come to be understood primarily as an expression of the centripetal forces present in the market economy. Defined in its broadest sense, the market economy came to be seen as a driving force behind the wide variety of changes apparent in the world today. Some have even described these changing effects of globalisation as uncontrollable and irreversible.<sup>13</sup>

Of course, the economic factors that Greenspan chooses to focus on are only a part, albeit a crucial one, of the entire picture. The concept of cultural homogenisation has recently gained international prominence because of frenzied attacks around the world on that ultimate symbol of cultural globalisation, the McDonalds's fast-food chain. Cultural homogenisation is, however, also present in the corporate sector, where English had already triumphed as the contemporary lingua franca and in the electronic media, which promptly anglicised as well. It is also true that because of the western domination of the economy, globalisation is often seen as a synonym for westernisation. As Thomas Friedman recognised, in the contemporary world even the most robust cultures find themselves under pressure and look for ways to survive.<sup>14</sup> In France, for example, the government mandates the number of French songs on the radio and French films in the cinemas. As a result, many movies of poor quality are made. These movies are intended never to be screened. Instead, they are used to fill the government-mandated quotas. Importantly, Friedman points out that cultural globalisation is not all about "push". It is also about "pull", as many people around the world actually desire to feel modern and, very often, American.<sup>15</sup> It is perhaps a symptom of globalisation that a young protester in Tehran can march through the streets, shouting "Death to America", while wearing "Made in USA" Levi jeans.

There are other aspects of globalisation. Migration, for example, has grown with the improvements in transportation.<sup>16</sup> Welfare provisions and tolerant political attitudes make the West the obvious destination for people from all over the world. Unlike previously, when immigration came at no significant cost to the budget of the receiving country, the legal costs of processing of the immigration claims and the bill arising from welfare provisions for the immigrants and their families make

contemporary immigration a major fiscal as well as logistical problem. Thus, many of the European Union (EU) countries, to give an example, have recognised the need to coordinate their immigration policies. There is also the growing importance of the environmental issues. Though there is a disagreement about the extent of environmental pollution and even the very existence of global warming, there can be no doubt that the environmental lobby has used the technological revolution to its advantage. The environmentalists are one of the most successful representatives of globalisation, mobilising public opinion around the world with singular effect.

As Held argues, all the above effects of globalisation place the realist concept of the centrality of the nation-state under increasing pressure. Proliferation of IGO's, NGO's and a plethora of international regimes, all contribute to the increasing limitation of national autonomy. Some territorial developments, especially the ones in Europe, even suggest an emergence of a political model not unlike that of the medieval period, when the sovereignty over a particular people or a particular territory was shared by a number of different rulers.<sup>17</sup> With shared sovereignty comes military cooperation. For example, the EU has already reached an agreement on the eventual creation of a common European army. Considering that military power is usually seen to epitomise the sovereignty of a nation, many see the increasing regulation of military power as yet another aspect of globalisation.<sup>18</sup>

As far as realism is concerned, there are two issues of immediate interest. Firstly, the sovereignty of the state seems to be eroded by, amongst other things, rapid and voluminous international financial flows. States are forced to take sovereignty-compromising measures in order to avoid the displeasure of the markets. Among these, the theory goes, is the growing fiscal and monetary circumspection. Secondly, the technological advances over the past ten to twenty years have

facilitated tremendous improvements in communications between previously isolated pressure groups. Many of these groups have now united to form influential non-governmental organisations. The environmentalist movement and human rights watchdogs, Amnesty International among them, are good examples of this trend. But, does the existence of these organisations, as some scholars argue, compromise the centrality of the nation-states as the only viable actors in the international arena?<sup>19</sup> If so, what is the impact of globalisation on the structure of international relations? Before answering this question, it is necessary to look more closely at the realist theory.

Kenneth Waltz's Systemic Theory of international relations emphasises the state's territorial position and military strength as deciding factors in that state's behaviour.<sup>20</sup> As such it forms one of the most potent underpinnings of realism proper. In Waltz's view, the system was in a position of supremacy over its units. Quoting Durkheim, Waltz asserts, "whenever certain elements combine and thereby produce, by the fact of their combination, new phenomena, it is plain that these new phenomena reside not in the original elements, but in the totality formed by their union."<sup>21</sup> Extrapolation of Durkheim's argument thus enables Waltz effectively to deny the state the freedom to act out of considerations other than those of the anarchical international system. It was because of this "independent" and anarchical system, and its ability to transform different units into similarly functioning actors that prompted Waltz to say that functional differentiation, or internal attributes of the states, could "drop out" of the analytical consideration of nation-state behaviour. The states that do not conform to the requirements of the system and focus on goals other than those of security are bound to suffer at the hands of their more ruthless



counterparts. To put it differently, Waltz's argument is that "bad money drives out good money".

Ruggie criticised Waltz's theory for its inadequate account of change in the international system. Ruggie based his argument on the analysis of change from a medieval, hierarchic and papacy-dominated international system to a modern, anarchic and individual state dominated international system. He argued that transformation of the international system from medieval to modern was based on the concept of gradual individualisation of property and subsequent exclusiveness of the nation-states. Consequently, Ruggie proposed that the change of the international system from an hierarchical to anarchical order occurred because of the change of "the principles on the basis of which the constituent units... [were] separated from each other."<sup>22</sup> On this basis, Ruggie concluded that functional differentiation was in fact fundamental to the process of change in the international system.<sup>23</sup>

By extrapolation, internal attributes of states could, sometimes in the future, serve as *modus operandi* for systemic change again. In defence of his theory, Ruggie also defined a concept of a "determinant of change", or a quantitative method through which the change of the international system could be made observable. Ruggie saw the determinant of change in Durkheim's concept of "dynamic density", which could here be understood as a quantity and volume of transactions, interactions, and co-operative activities between units of the system.<sup>24</sup> In Ruggie's thinking, pressure created by increasing density of transactions between the actors, in this case nation-states, could cause a change of the entire system. In other words, greater dynamic density could produce a greater possibility of a profound alteration of the system. The alteration Ruggie was thinking of was one of a change of the international system from that of belligerent anarchy alluded to in the introduction to

that of some sort of hierarchy based on principles of cooperation. As can be seen, therefore, criticism of Waltz's systemic theory of constituent units jealously guarding their sovereignties and relying on power to protect their interests, focuses on economic interdependence as a way through which Durkheim's principle of dynamic density could indeed change the very essence of the international system. In what follows, this chapter will look at three different perspectives on the impact of globalisation on international relations as identified by Held and his collaborators in their 1999 book Global Transformations.

## II. Hyperglobalisers' Guide to the New World Order

*Surtout, Messieurs, point de zèle.*<sup>25</sup>

- Charles-Maurice de Talleyrand

Having said the above, is it plausible that such a transformation of international order has occurred or is occurring? One author, who believes that this is indeed the case and that the international system has been "irreversibly" changed, is the former head of the McKinsey Consultants and a principal proponent of the hyperglobalising view, Kenichi Ohmae.<sup>26</sup> The strength of the market associations, Ohmae asserts, means that national governments have "lost" control over their economies and are now relegated to the management of the social consequences of globalisation.<sup>27</sup> Ohmae's view is based on his analysis of the growing investment and information flows, as well as the growth of individualism and the relative decline of national consciousness as a factor in the economic decision-making in the West.<sup>28</sup> Moreover, Ohmae seems to see the erosion of the nation state as a determining unit of international relations

continuing, until its replacement with ever-closer regional establishments, not unlike the European Union (EU), the North American Free Trade Agreement (NAFTA) and the Association of South-East Asian Nations (ASEAN).<sup>29</sup> Indeed, some facts support at least a part of what Ohmae is saying. In 1994, for example, direct US investment overseas totalled \$612 billion, an increase of 9.2% from the previous year. In the same year \$504 billion was invested in the USA from overseas, an increase of 8.6% from the previous year. Again in 1994, USA exported \$840 billion worth of goods and services and imported \$955 billion of the same. This was, respectively, an increase of 11% and 15.5% from the previous year.<sup>30</sup> Despite these indicators, there are a number of problems with Ohmae's assertions.

Globalisation is mostly applicable to the industrialised countries, and while it is true that the countries of former communist Eastern Europe and Russia have now embraced the free market, globalisation in the Third World is at best ambiguous. The above multi-billion dollar investments, to give one example, happened mainly between the USA and Europe, with Asia coming a distant third. In the late 1990's this disparity was further exacerbated by the Asian economic crisis and the lingering weakness of the Japanese economy. It is precisely because it is difficult to see what, if any, influence globalisation has on, for instance, the failed African states that the absolutist nature of Ohmae's pronouncements is somewhat difficult to accept.<sup>31</sup> This is a problem that Thomas Friedman looked at in his work. In it Friedman contrasted his visit to the highly mechanised Lexus factory in Japan, where 300 Lexus sedans are produced per day by 310 robots and an astonishingly low number of 66 people, with one of the innumerable disputes between the Israelis and the Palestinians who, in his words "were still fighting over who owned which olive tree".<sup>32</sup> Of course, the Israeli-Palestinian problem is hardly an exception. Territorial conflicts abound

throughout the world. As the problems between Ethiopians and Eritreans, Indians and Pakistanis, Sierra-Leonians, Sudanese and many others are analysed, it seems clear that it is usually the poorest and the most desperate that embrace "the olive tree" as the last object to hang on to. Others acknowledge the continued North-South divide, point to the global inequality in the standards of living, and argue that this inequality contributes to the fermentation of nationalism and fundamentalism with potential results similar to those described by Huntington in his Clash of Civilisations. Of growing importance is their observation that in the presence of such gross inequality in both political and economic prowess, the shape of the "new world order" is a shape preferred by the mighty; a world that the weak have little say in creating and, consequently, little stake in upholding.<sup>33</sup>

Similarly, Ohmae's assertion about the "irreversibility" of integration seems to be unfounded. European history, be it ancient or modern, provides many examples of phenomenal growth of trade, prosperity, knowledge and technological advance followed by decline in both material and intellectual sense. The collapse of the literate, artistic and prosperous Mycenaean Civilisation may serve as an example. When it ended in mid-eighth century BC, it was replaced by a period known as "The Dark Age". This period was illiterate and artistically primitive. However, this "Dark Age" was probably not the first and certainly not the last. The collapse and the dissolution of the Western half of the Roman Empire in the fourth and fifth centuries AD with its extensive administration, commerce, prosperity and peace was replaced by yet another era commonly referred to as "The Dark Ages". Though the intellectual life and scientific discoveries continued in Byzantium and in the Arab world, science and philosophy in Western Europe came close to extinction as the intellectual life was consigned almost solely to Christian monasteries. Indeed, with

originals lost or destroyed, much of Renaissance scholarship had to rely on the Arabic translations of the works of many of ancient scholars, Aristotle among them. Moreover, the rule of law, which had characterised the life in the Roman Empire, disappeared and was replaced by the rule of the strongest and most ruthless members of the community. Last but not least there is the example of the above-mentioned collapse of the classical liberal economic order that dominated the second half of the 19<sup>th</sup> century and its replacement with protectionism, chaos and, ultimately, war. One can predict anything, so it seems, except for the future.<sup>34</sup>

### **III. Sceptics: Not So Fast...**

*What ever sceptic could enquire for; For every why he had a wherefore.*<sup>35</sup>

- Samuel Butler

It is the historical precedent of economic interdependence in the 19<sup>th</sup> century that the free market scholars focus on. These "sceptics" argue that the current levels of interaction rise neither to the ideal of an integrated global market, nor to the levels of international trade in the 19<sup>th</sup> century.<sup>36</sup> Enlargement of the freedom of the markets, sceptics continue, is driven by a highly regulatory international treaty system and not by the amorphous forces of global capitalism envisaged by the hyperglobalisers. Once more, the EU is the case in point, for the origins of this most advanced of all regional experiments based in a post-WWII political decision to oppose the expansion of Communism and in an attempt to prevent yet another conflict between Germany and France. It also ought to be remembered that the roots of every decision to enlarge the European "free market" can be found in one of the appropriate pan-

European treaties, which are often Byzantine in their detailed attempt not to disturb the social equilibria of the member states.<sup>37</sup> Moreover, the sceptics argue, the current regional free-trade tendencies are qualitatively different from the liberal trade relations of the 19<sup>th</sup> century, because then the trade was truly inter-national, while the current "free-market" regime masks, often clumsily, high levels of regional protectionism.<sup>38</sup> Indeed, as Weiss points out, regionalisation and globalisation might be perceived as contradictory and not, as Ohmae understands them, as a stepping-stone from the former towards the latter.<sup>39</sup>

Certainly, when it comes to economic protectionism, the sceptics have a point. As has been mentioned, the nationalist understanding of economics is one of a zero-sum game. Gain acquired by one state, in other words, means a loss for another. Therefore, the theory goes, it is necessary for the state to gain as much as possible in order to maximise its economic and, consequently, its military power. In essence, therefore, the nationalists regard everything as subordinate to the needs of the military complex and its practical employment, the furthering of the national interest of the state. Consequently, nationalist decision-makers have a tendency to adopt policies which might prove detrimental to health of the economy in the long term. In the short-term, though, these policies appear beneficial to the immediate needs of the state. The nationalists oppose the process of economic interconnectedness. As they rightly observe, economic cooperation means reliance of the state on trade with others and, consequently, compromises its sovereignty and independence.<sup>40</sup>

This "nationalist" understanding of economics is inseparable from the concept of protectionism. Protectionism can take many forms. Using tariffs, for example, the states prevent competing goods from entering their borders freely, thus preserving their artificially inflated employment levels. Protectionism also comes in

the form of subsidies to inefficient companies, thus having a double negative effect of wasting the taxpayers' money on inefficient companies and the wasting of private earnings on goods, the value of which is artificially high. The effects of these protectionist policies on the international system should be obvious. Countries that adopt them retreat into their borders and international trade collapses. This is, broadly speaking, the kind of policy followed during and after the Great War. Today, this nationalist philosophy enjoys some outspoken support. Ross Perot and Pat Buchanan, to give one example, have taken a very negative view of the North American Free Trade Agreement (NAFTA). The two have argued that the agreement would harm the USA by opening its labour market to the influx of cheap Mexican labour. In fact, the opposite has happened. In the year 2000, the USA had 0% unemployment and enjoyed the longest economic growth in its history. It would be wrong to assume, however, that protectionism is gone. As will be discussed below, all countries in the world today engage in some sort of protectionist activities.

What about the issue of national sovereignty? Clearly, a growing maze of transnational networks and a growing number of cooperative international and supranational organisations with varying degrees of influence and responsibility, strain the realist emphasis on "independent" nation-states as the sole important actors in international relations. In the EU, for instance, it is the European Court of Justice and not the national government that has the final say in a number of legal areas, adjudicating the disputes between its members and, more importantly, between its constituent members and individual citizens. Britain, for example, was taken to this Court by a number of disgruntled tenants living in the flight-path of the aeroplanes flying to and from London Heathrow Airport. They sued the British government for excessive noise and won. Because of the ruling, a good-night's sleep is now a

fundamental human right and Britain will now be obliged to limit and, perhaps, eliminate noisy planes from London's sky.<sup>41</sup> Until recently, it has been possible to argue that the European integration process did not really affect the most important elements of national sovereignty; the military and foreign policy.<sup>42</sup> Recent developments in the EU, however, saw the establishment of a EU Commissioner for Foreign Policy and the establishment of the pan-European rapid reaction force. The Nice Treaty went further, laying the framework for the eventual emergence of a common European army.

Even though the decisions concerning the EU are, largely, political and not economic in nature, this self-evident pooling of sovereignty is a reality. At a regional level, however, there is an increasing amount of shared sovereignty aimed, at least as far as the continental protagonists of the "ever-closer" European integration are concerned, at a creation of a federal Europe, does not really mean much as far as the overall power of the state is concerned. As Morgenthau argued, "Nothing in the realist position militates against the assumption that the present division of the world into states will be replaced by larger units of quite different character, more in keeping with the technical potentialities and the moral requirements of the contemporary world."<sup>43</sup> Kissinger essentially seconded Morgenthau's view by pointing out that European integration was the only way through which the European countries could block the process of sliding into "irrelevance".<sup>44</sup> For Kissinger, therefore, European integration was essentially a natural outgrowth of Morgenthau's concept of power politics, aimed at maximisation of nations' military capabilities.<sup>45</sup> The EU, the sceptics worry, is thus simply being transformed into a superstate with the powers of this creation mirroring the powers of the individual states and perhaps stronger.



So, the sceptics appear to be right as to the shortcomings of the contemporary version of the free market. As far as the *laissez-faire* ideal is concerned, there is still a long way to go. On the other hand, it is undeniable that, when it comes to economics, states do cooperate more than they have done since the beginning of the WWI. This poses some interesting conundrums for the realists. As has been shown, economic cooperation, the concomitant emphasis on the benefits of free trade and common interest enshrined in a common desire for economic prosperity is a belief firmly rooted in the 19<sup>th</sup> century liberalism. Carr, whose work effectively launched realism as a distinct theory, attacked this belief. As Carr showed, the concept of common interest was a chimera enforced by a governing elite in order to promote its own selfish interest.<sup>46</sup> Some contemporary theorists, however, defend interdependence by combining it with Carr's criticism of common interest. Thus, integration of national economies might be seen in the self-interest of the states themselves.<sup>47</sup> Keohane articulated this idea in his "regimes theory", where he argued that a realist assumption about selfishness of interests in international relations is compatible with economic cooperation and interdependence.<sup>48</sup> The nation-states, in other words, cooperate based on self-interest and reciprocity. How is this possible?

Carr's argument is based on Rousseau's "stag hunt" or "prisoner's" dilemma, which asserts that certainty of cooperation is impossible, because satisfaction of immediate self-interest will prevent long-term commitment to cooperation. Rousseau wrote, "Assume that five men... come together at the time when all of them suffer from hunger. The hunger of each will be satisfied by the fifth part of a stag, so they 'agree' to co-operate in a project to trap one". But, if one of them grabs a hare that comes within his reach, the trap collapses. "The defector obtains the means of satisfying his hunger but in doing so permits the stag to escape. His immediate

interest prevails over consideration for his fellows.”<sup>49</sup> What the dilemma does not say, however, is that there is, so to speak, “always another day”, when the hunt will have been repeated and those who have not cooperated the day before will not be asked to join in the hunt again. Therefore, they will go hungry. This “repetition” transforms prisoner’s dilemma into a prisoner’s game, where the actors are encouraged to play often, thus eroding the risk of defection from communal obligations. The “game theory” makes it possible to accept that cooperation creates “obligations” which, although they are hierarchically unenforceable, are nevertheless workable, because they are based on reasons of self-interest.

#### **IV. Transformationalists**

While the realists seem wrong in seeing no change vis-à-vis the position of the state as it used to be, the sceptics cannot deny that the world is not undergoing profound social and economic changes either. Though right in pointing out the shortcomings of contemporary globalisation in comparison with its 19<sup>th</sup> century predecessor, the statist arrangement of today is not what it used to be. An increasingly vocal group of scholars, who cover some of the emerging middle ground by accepting the changing effects of globalisation, while not seeing these effects as either irreversible or uncontrollable, are the transformationalists. Their main argument is that the “governments and societies across the globe...[have] to adjust to a world in which there is no longer a clear distinction between international and domestic, external and internal affairs”. International flows of capital made possible by the wonders of modern technology and communications, they argue, are clearly changing the world, often enforcing fiscal circumspection among national governments and sensitivity to

the requirements of foreign private investment, thus progressively chipping away from national sovereignty some of its most important attributes.

To begin with, globalisation of trade and finance are often seen as the forces behind the process of globalisation. In fact, this view is probably mistaken. As has been shown before, barriers to trade and finance are not falling simply because the market economy needs it. Economic history provides a never-ending catalogue of governmental interference in the functioning of the market economy, for a wide variety of reasons and often with full knowledge that such interference will be harmful in the long-term. Neither does the answer to economic liberalisation rest in the states' powerlessness to stop the globalisation of trade. It rests in the states' unwillingness to do so. Some have suggested that this is so, because the states do not want to put themselves at a disadvantage in attracting foreign investment vis-à-vis countries that nourish environments conducive to foreign investment. Thomas Friedman calls this process of convergence of capital returns, lending rates and profits, "the golden straightjacket".<sup>50</sup> Of course, Friedman's own view is that fiscal and monetary responsibility is good in itself, a notion opposed by Gray, who sees the above homogenisation as a negative development.<sup>51</sup> Both Friedman and Gray, however, see only one side of the picture. True, some degree of economic deregulation has undoubtedly occurred – especially in the financial sector. In other areas, in health and safety, for example, the trend has been in the opposite direction.<sup>52</sup>

A better explanation seems to be that following the collapse of communism alternatives to some sort of liberal understanding of economics are no longer available. Like the protectionists, the Marxists believe that unrestricted trade contributes to destructive exploitation of one participant by another. This Marxist

view, however, does not focus on the exploitation of one state by another, but rather on the exploitation of the international working class by the international capitalist class. Exploitation, the Marxists claim, is inherent in the capitalist system of free trade. Similarly in decline is the offshoot of Marxism, the dependency theory. According to this theory, the world is divided into two parts: the core and the periphery. The core is comprised of the Western industrialised nations, while the periphery is made up of the under-developed regions of the world. The dependency theorists see the latter group as being exploited by the former. However, the spectacular rise of the "Asian Tigers" such as Singapore, Hong Kong, South Korea and Taiwan have illustrated that it is possible, through participation in the free market, for poor countries to obtain unprecedented levels of development.<sup>53</sup>

It remains true that although any country can, at any time, erect trade barriers around its borders and stop the flow of capital, such actions are very rare. Even communist North Korea and theocratic Iran, both of which opted for international isolation in the past, have recently begun a process of liberalisation. Similarly, following the Asian crisis of 1997-8 out of all the countries afflicted, only Malaysia introduced significant restrictions on the movement of capital. The South Korean answer to the Asian crisis, on the other hand, was further liberalisation. The South Korean economy got into trouble in December 1997 when, following the Thai meltdown, investors pulled out of the South-East Asian markets. The Korean economic management was not particularly sound and the South Korean government lied about the size of her national debt and foreign currency reserves. Her economy, however, was not as corrupt as, for instance, Mahatir's Malaysia and Suharto's Indonesia. Yet, following the crisis, South Korea did not shut her doors on the economic interconnectedness. In fact, she has learned the appropriate lessons and her

Ministry of Finance now sends out e-mails to foreign investors detailing her foreign currency reserves.<sup>54</sup> In short, capitalism works better than any of its competitors.

Thus, with communist and protectionist philosophies greatly undermined by, it has to be said, their own historical record, the doctrine of the free markets is now being adopted, albeit imperfectly, across the world. This is particularly important, because of the impact free markets have on the extent of the welfare state. As Ebeling writes, governmental provision of “social programmes” cannot be assured under the conditions of the free markets. “Goods may come in that out-compete minimum wage sectors of the economy; foreign goods may incorporate technologies and features attractive to the buying public, but which the domestic producers cannot readily match.” As a result, some businesses may find it necessary to retrench a part of their workforce and the tax revenue and, consequently, welfare spending may decline.<sup>55</sup>

It is for this reason that the transformationalists worry that at the distributional level globalisation may result in the growth of poverty. But, it is unclear why they reject the expectation that all strata of society will benefit from an absolute increase of the wealth that the free market usually brings about. Likewise, their concern with “downward pressure” on the real wages of low-skilled labourers, which they expect not only to stagnate but actually reverse, is also curious.<sup>56</sup> After all, capitalism’s selling point is precisely its historically documented ability to contribute to an increase in the absolute levels of wealth in society, however divergent its relative distribution. “To most economists the evidence is impressively persuasive that the dramatic increase in world competition – a consequence of broadening trade flows – has fostered markedly higher standards of living for almost all countries that have participated in cross-border trade”.<sup>57</sup> But, why is international

trade so important to prosperity? As will be discussed below, this is because trade encourages innovation and replacement of old technologies by new. Greenspan writes,

Standards of living rise because the depreciation and other cash flows of industries employing older, increasingly obsolescent technologies are marshalled to finance the newly produced capital assets that almost always embody the cutting-edge technologies. This is the process by which wealth is created incremental step by incremental step. It presupposes a continuous churning of an economy in which the new displaces the old.<sup>58</sup>

Indeed, never before has affluence been as widespread as it is now among the contemporary Western middle class and capitalism is the reason for it. It is, therefore, regrettable that governments present the fiscal responsibility necessary for economic stability as “unfortunate”. It is appalling that governments are able to make election promises, be it on welfare or other issues, and then break these pledges because of “inescapable” market forces. It is equally regrettable that multinational companies perpetuate these myths by not having the courage to dissent. One commentator writes,

[With] their enlightened mission statements, progressive stakeholder strategies, flower-motif logos and 57-point pledges of ‘corporate social responsibility’, [the companies] implicitly say that they have a case to answer: capitalism without responsibility is bad. That sounds

all right; the trouble is, when they start talking about how they will no longer put profits first, people (rightly) think they are lying. If, as these defenders of economies without borders lead you to conclude, global capitalism is a cause of democratic paralysis and a cloak for old-fashioned corporate venality, even instinctive liberals ought to side with the sceptics.<sup>59</sup>

The truth of the matter is, of course that companies do care about profit above all other considerations. Profit is the reason why a tremendous variety of foods appear in the shops every morning, all nicely packaged, safe, and ready to eat. To put it differently, the whole "point of a liberal market economy is that it civilises the quest for profit, turning it, willy-nilly, into an engine of social progress". In fact, companies that "compete with rivals for customers and workers ...will indeed worry about their reputation for quality and fair dealing – even if they do not value those things in themselves. Competition will make them behave as if they did".<sup>60</sup>

A much more persuasive argument concerns the impact trade makes on the workforce. Regardless of whether it is blue-collar or white-collar, there is little doubt that the risk of job obsolescence has increased in recent years, with workers having to regularly up-grade their skills. The trauma of adjustment to these more fluctuating economic conditions, which are the very reasons for increased levels of prosperity, is real. But, job security is not a fundamental human right and the responsibility that all people have to take to plan and to insure for time out of work is thus by no means diminished. If the government does have a role to play, then this should involve enabling the workforce to retrain and to enhance its skills. One "remedy" that must be avoided is protectionism. As will be shown in the chapters to follow,

protectionism will disable capital movements towards the most productive areas of the economy. This will hinder innovation and production of goods that the consumers value most. It is true, of course, that some jobs will remain protected, but the workforce as a whole will suffer, for every protected job will mean a diminished opportunity for other workers. It is also important to remember that domestic trade affects distribution of jobs as well. "The relative balance of supply and demand in a competitive market economy determines the mix of employment", Greenspan explains. "When exports fall or imports rise, domestic demand and relative prices have invariably adjusted in the long run to leave total employment generally unaffected".<sup>61</sup>

Having considered the particular effects of globalisation, what is the overall impact of globalisation on the structure of international relations? Can it still be said, as realists would have it, that the world resembles a billiard game consisting of independent units with impenetrable shells, continuously competing against one another in a system of anarchy? Or, can it be said that the centripetal forces of globalisation support Durkheim's thesis of a dynamic density, thus changing the international system to something new? If so, what is the nature of this new system?

Contrary to the views of the hyperglobalisers, the process of globalisation is a dynamic and open-ended process.<sup>62</sup> Consequently, its final imprint on the structure of the international system is not yet discernible. The evidence at hand, however, seems to support the transformationalist thesis of growing interaction and cooperation among the developed nation-states. Interestingly, these states cooperate despite the cost to their sovereignty. Thus, as Keohane had predicted, when faced with long-term benefits of cooperation, states do actually choose to cooperate. As has been shown above, this cooperation is enhanced by a broad agreement amongst the governments



in the developed world on a range of issues that have previously prevented such cooperation. Possibly the most fundamental area of agreement concerns the free market and its variations as the way of achieving development and, ultimately, prosperity.

The lessening of national sovereignty, critics of globalisation argue, does come at a cost. As the transformationalists worry, globalisation induces renegotiation of the power, the function and the authority of the national government.<sup>63</sup> According to these scholars, globalisation constrains the ability of the national government to interfere in the running of the economy and its engagement in different types of social engineering. This, they believe, is bad, because of the resulting growth of inequality. The proponents of the free market differ from the above position by seeing the decline of governmental interference in the economy as positive. As they point out, only free markets can produce prosperity for all. Yet, they are only too ready to point out that the freedom of the markets is at best partial and that many of the statist attitudes and regulations remain. As will be seen below, not only is the freedom of the markets partial, there is a growing unease about the effects of globalisation and a growing pressure to reverse the trend of liberalisation. Of course, this conflicting view of globalisation is central to this debate and it will be of concern for the remainder of this thesis.

## V. Free Market, Capitalism and Interventionism

*There is simply no other choice than this: either to abstain from interference in the free play of the market, or to delegate the entire management of production and distribution to the government. Either capitalism or socialism: there exists no middle way.*

*- Ludwig von Mises<sup>64</sup>*

Moritz Bonn once wrote that there are three distinct ways in which international economic relations can be conducted. The first way is exclusively by corporations and individuals. The second way was exclusively by governments, while the third is by individuals and corporations on the one hand and governments on the other hand.<sup>65</sup> Before WWI international trade happened almost entirely among individuals and corporations, but then fell under governmental control. During the WWII, the allied leaders saw the need for a vigorous international trade and established the Bretton Woods system, which consisted of the World Bank, the IMF and the General Agreement on Tariffs and Trade (GATT). But, Hazlitt wrote, this did not mean a return to the pre-1914 liberal order.

[The Bretton Woods system] ...is primarily cooperation among governments. As in the thirties, it is governments that are going to take matters in hand. But instead, as in the wicked thirties, of restricting trade and making economic war upon each other, this time, we are told, the governments are going to direct and stimulate trade in the interest of peace. It is a pleasant fantasy; but there are gravest

reasons for doubting that it will ever be realised... For government officials, even when they really understand (which is very rarely) the basic economic forces they are trying to control, are almost never disinterested. They are almost certain to reflect the special interests of the pressure groups represented by bureaucrats of one nation are certain to clash with those pressure groups represented by bureaucrats of another. And these conflicting interests, precisely because they are represented by their representative governments, are far more likely to clash openly, directly and politically than in the world of genuine free trade.<sup>66</sup>

Hazlitt was proven right, for as Tumlr observed, post-war protectionism arose out of special interests of the industry, which used political connections to insulate itself from outside competition. Though many of the inter-war period elements of protectionism, such as subsidies and trade restrictions remain, contemporary protectionism is not overtly antagonistic. Unlike its precursor, protectionism today combines a wide range of special interests, often in both the importing and exporting countries and Tumlr believes that it is for this reason that it will that much more difficult to dislodge.<sup>67</sup> Like Hazlitt, Ebeling believes the post-war protectionism was inevitable. As he argues, international trade got entangled in protectionist policies because of the welfare state's obsession with "social good", "national interest", "general welfare" as well as the need to satisfy the demands of protected sectors of industry and protected parts of the population.<sup>68</sup> Thus, by the 1970's the OECD countries had once more come to maintain a plethora of protectionist policies. These included tight foreign exchange controls, restrictions on foreign investment, price

and wage controls, state-directed programmes and intergovernmental deals.<sup>69</sup> It was then that there emerged a global preoccupation with “fair” and “just” trade as opposed to free trade. According to this idea, free trade price, which is arrived at through decisions by billions of disinterested people-consumers around the world is somehow inherently unfair and needs to be replaced with a price reflecting the needs of “social justice”. But, as Bhagwati argues, just about anything done in the name of “fair trade” by one state can be interpreted as “unfair” by another. More likely than not, “fair trade” will become synonymous with protectionism and reinforce government’s appetite for management of economic relations, “with bureaucrats allocating trade according to what domestic lobbying pressures and foreign political muscle dictates”.<sup>70</sup>

The 1980’s did, of course, reverse the trend somewhat. But, even with the fall of Communism many protectionist practices remained in place. As Henderson writes, neo-liberal hegemony is a myth. Liberalisation of the economy has not spread to education, health and delivery of other social services. Similarly, most OECD countries continue to pursue highly illiberal policies in agriculture, of which the Common European Agricultural Policy (CAP) is the clearest example. Many trade restrictions and limits on investment remain in place, as do restrictive measures intended to protect the environment and the safety of the workers. Meaningful freedom of contract in employment remains elusive. Governments remain highly involved in securing contracts for their nationals, exercising both their financial and political muscle to achieve “favourable” outcomes. Even “free-market governments” continue to behave in mercantilist fashion. Margaret Thatcher, for example, has exercised her influence to secure contracts for British firms in the case of the Pergau Dam.<sup>71</sup>

In the 1990's, much hope had been placed in the GATT's successor, the World Trade Organisation (WTO). Though the WTO is much hated by the opponents of free trade, the WTO itself is not a free trade organisation. Under WTO arrangements, it is the governments and not the markets that are to raise standards of living and ensure full employment. In the pursuit of these goals, governments are permitted to impose tariffs and other protectionist measures. As Ebeling writes, the WTO is expected to do the impossible. It is mandated to liberalise international trade "in the political and economic context of national policies of welfare-statism, interventionism, protectionism, and indicative planning to foster the maintenance of growth of privileged industrial and agricultural sectors of the respective national economies of the various member nations".<sup>72</sup>

If not "free market", how should the current international economic system be called? In answering this question, it is perhaps sensible to start by distinguishing capitalism from the free market. Clearly, with all the contemporary restrictions in place, the free market is not a reality and unlikely to become so anytime soon. In order to be free, the market should possess the following characteristics. It should be defined by private ownership of all means of production and their use by private owners, be they individuals or corporations. Consumer demand should be the sole determinant of the usage of these means of production. The laws of supply and demand should determine the prices of goods and labour. Successes and failures of businesses should be determined by the ability of these businesses to make a profit. Profits should be determined by the ability of the businesses to provide the public with that which the public wants. Provision of public needs should be done in an atmosphere of free competition. There should also be a free banking system and currency should be issued by competing private banks. Most importantly, there

should be a minimalist government restricted to the protection of life, liberty and property.<sup>73</sup> That said, the free market is an ideal to be aspired to.

Secondly, the contemporary meaning of "capitalism" can sometimes mean the anti-thesis of the free market. Economic interactions between people and nations today are fraught with distortions intended to suit the special interests of particular groups and big corporations alike. It is for this reason that terms such as "statism" or "corporate statism" should instead be used. Although it is questionable whether the term "capitalism" is even appropriate, it is a term that has come to depict contemporary economic interactions and it shall, therefore, be used. But, it is important to bear in mind Milton Friedman's warning; "Defence of the free market does not mean defence of the big corporations".<sup>74</sup> That is not to say that "capitalism" is, as some of its opponents maintain, evil or indefensible. Historically speaking, capitalist societies have been more conducive to the preservation of human freedom than other socio-economic systems. And, if this thesis succeeds in conveying that human freedom is desirable, then capitalism and, preferably, the free market are desirable too. It is also a matter of historical records that despite its imperfections capitalism has performed better as far as the creation of wealth, the raising of the standards of living and general prosperity are concerned, than any of its competitors.

In fact, it is precisely because of the intervention of the state in the economy that many of the social problems occur. Yet, those who do not understand the workings of the free economy or those who set out to deliberately deceive, blame "capitalism". But, as Ebeling articulates, it remains unclear how capitalism is to be blamed for, for example, unemployment. After all, the state has undermined the emergence of a free and competitive labour market through the imposition of minimum wage laws, legalisation of trade union monopolies, the establishment of a

variety of social benefit schemes that remove incentives to work, and by collecting ever-increasing taxes that make hiring of new personnel difficult. It is equally illogical to blame capitalism for pollution and environmental degradation. Again, the state has refused either to specify, or to enforce, meaningful private property rights and has thus prevented, as Coase showed, internalisation of negative externalities. Critics also blame capitalism for inflations and recessions. This is especially ludicrous, considering that “for practically the entire 20<sup>th</sup> century it has been the state’s monetary and fiscal policies that have been responsible for causing macroeconomic fluctuations in employment, output and prices through government’s use of purely paper monies, central banking and deficit spending”.<sup>75</sup> But ironies do not stop there. Capitalism is blamed for poverty, but it was the state that has imposed high taxes and a myriad of regulations that work as disincentives to investment and growth. Similarly, capitalism is blamed for the worsening of gender and racial relations. This is clearly nonsensical. The state has first discriminated against certain racial groups and it now tries to compensate for past discrimination by imposing “new tribal collectivism in both public and private sectors, in which ethnic, racial and gender quota rules increasingly determine an individual’s fate in terms of opportunities for higher education, employment and income earning”.<sup>76</sup> It is the state and not capitalism that has first created, and now exacerbated, social tension by politicising the lives of individuals to a point where people see other “ethnic, racial and gender groups as threats to their own advancement, and therefore enemies in the battle for political power and the financial disbursements”.<sup>77</sup>

The point to remember here is that far from being the source of many of the problems that its critics associate with the free markets, there is a compelling argument to show that the opposite is true. Many of the contemporary social

problems have either been caused by or have been exacerbated by, the interfering hand of the state. If anything, the market has proved itself repeatedly as a way of bringing people together. As has been shown in the first chapter, trading centres of Amsterdam and Florence epitomised in their time levels of tolerance unknown elsewhere. But, nothing demonstrates the contrast between the constructive role played by capitalism and the destructive role played by the state than apartheid in South Africa. As Sowell writes, white employers habitually defied "the apartheid laws to hire more blacks, and in higher positions, than permitted by the government". The market demanded more black labour and capitalists complied, irrespective of what the government had said. Similarly, in the South African housing market, the market triumphed over zoning laws as whites sold their houses to blacks, creating black neighbourhoods in areas officially designated as "white".<sup>78</sup> Also in the USA, Cowen writes, market demand for blues and rock and roll broke down racial prejudices in the recording and entertainment industry, enriching and promoting black entertainers in the process. Ironically, this newly-found outlet for black talent was denounced as crassly commercial.<sup>79</sup> And yet, there are still those who claim that the free markets have gone far enough and that, if anything, there is a need to reinstate the state in a more prominent role. It is to these critics of the free market that this thesis will now turn.



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### Chapter Three

*We ask that the government undertake the obligation above all of providing citizens with adequate opportunity for employment and earning of living. The activities of the individual must not be allowed to clash with the interests of the community, but must take place within its confines and be for the good of all... We demand profit sharing in big business. We demand a broad extension of care for the aged... the government must provide an all-around enlargement of our entire system of public education... The government must undertake improvement of public health – by protecting mother and child, by prohibiting child labour... We must combat the... materialistic spirit within and without us, and are convinced that a permanent recovery of our people can only proceed from within on the foundation of the common good before the individual good.<sup>1</sup>*

*- National Socialist German Worker's Party Programme (ca. 1920)*

As has been shown in the previous chapter, globalisation is changing international relations. National sovereignty is no longer as absolute as it used to be. Instead, states are finding it advantageous to cooperate. The accumulated effect of this cooperation is the diminishment of the number of areas where the state can, or does, act alone. That is not to say that states have stopped behaving in a selfish fashion, trying to get the best deal possible. They still do. But, they also realise that often the best outcome can be achieved in cooperation with others. The issues are, however, more complicated. Trade liberalisation, to give the most significant example, exposes national economies to pressures that prevent the governments from engaging in a number of previously acceptable activities. For example, for much of the 20<sup>th</sup> century

governments used monetary policy to inflate the size of its employed populace. One of the reasons for doing so was the pursuit of "full employment". The other reason was the claim that the government is necessary to protect the citizens from the "instability" and "harshness" of the market. Of course, the alleviating effect of the above monetary measures has proved to be at best temporary. In the long run, inflation contributed to the overall slow-down of the economy, necessitating corrective countermeasures that were often more painful than would have been otherwise needed. But, empirical evidence to the contrary, the state is still seen as the protector of the least fortunate. Because of the monetary and, sometimes, fiscal discipline that it imposes, as well as the concomitant diminishment of the areas of governmental interference in the economy and the scope of "social welfare", the free market is often seen as an enemy of "social progress". Thus, even though the process of trade liberalisation is by no means complete, all movement in the said direction is seen to be dangerous. Those that hold these views demand that the markets be "tamed". Before the specific manifestations of these ideas in contemporary politics and international relations can be looked at, it is necessary to say a little about the history of opposition to free markets. As will be seen, the dislike of the markets is not new. In the words of Hayek, hatred of capitalism is eternal as well as universal.

## I. Taming the Markets

*If countries worldwide are becoming more similar, it is not because corporations are imposing some uniform set of goods and services, but because human beings share a similar set of needs and wants.*<sup>2</sup>

There is, as was mentioned, a growing opinion that unconstrained globalisation and unfettered markets can be potentially dangerous. This distrust of the free market is observable from some of the proposals to restrain it. These include the proposals by the UN's Commission on Global Governance, which seeks to "reform" the "existing structures" of international order through an "articulation of a collaborative ethos based upon principles of consultation, transparency, and accountability"<sup>3</sup>. The aim of the Commission is to create a more "democratic" and "equitable" world, where "social distribution" is based on the evolved loyalty and duty of individuals to wider human groups.<sup>4</sup> In doing so the Commission believes that it represents positive concerns for humanity as opposed to the self-serving destructive ones, represented by "impersonal workings of the markets" and "unconstrained competitive and self-serving instincts of individuals".<sup>5</sup> Clearly, the Commission believes that the markets are not only disruptive, but also lacking in humanity. The fact that the markets are based on the unconstrained, competitive and self-serving instincts of individuals, therefore, prompts the Commission to suggest, among other things, a system of checks and balances in order to insure that the market operates in the "framework of social responsibility".<sup>6</sup> One of the concrete proposals is the creation of a global forum intended to provide "leadership" in the economic field vis-à-vis the provision of "global public goods", such as the systemic financial stability, healthy

environment, equity and social cohesion.<sup>7</sup> This Economic Security Council would have an overreaching role extended to the workings of international financial institutions such as the IMF, the World Bank and the WTO in order to assure their compliance with democratic and equitable economic relations among nations.<sup>8</sup>

As will be seen, much of the opposition of the free market is philosophical and intuitive. However, it is also important to realise that much of this opposition is rooted in the selfishness of special interest groups. The European farmers, for example, have much to lose from liberalisation of European agriculture and the concomitant end of the CAP subsidies. But, their demonstrations are often described in terms of protests against American cultural imperialism and the like. Likewise, European and American industries lobby for anti-dumping duties out of concern for their own well-being, ignoring the benefits that cheaper products bring to the consumers. These special interest groups collude with politicians, who are in turn promised electoral support, bribes and so on. As Henderson writes, these lobbyists are successful in winning over not just politicians, but the public as well. "Typical voters", he writes, "have ideas and opinions concerning what is fair, just and acceptable, and as to what actions are likely to promote social or national goals of which they approve".<sup>9</sup> So it happens that many voters are not very keen on trade liberalisation and entertain false economic beliefs. Among these are,

- that industries or activities can be classed as either essential or non-essential, or ranked in order of priority
- that governments should ensure self-sufficiency in essentials, and provide systematic support to products, industries and sectors which have high priority

- that when transactions take place across national boundaries, the state is involved, so that international competition is primarily between states
- that exports represent a gain to each country, and imports a loss
- that tariffs, import restrictions and export subsidies serve to increase total employment
- that administrative actions to reduce or constrain the size of labour force – such as compulsory reductions in working hours, enforced early retirement, or tighter restrictions on immigration – will ease the problem of unemployment
- that actions undertaken for profit, or more broadly from self-interest, are open to questions as such
- that extending the scope of markets is liable to increase the extent of unpredictability and instability within economic systems, and of insecurity for the people who live and work in them
- that within countries, ‘unfettered’ market processes favour the rich and powerful, rather than poor, so that typically their outcomes are arbitrary and unjust
- that freedom of international trade and direct investment flows places poor countries at a disadvantage, relatively if not absolutely etc.<sup>10</sup>

Underlining all these misconceptions is the unifying belief that the betterment of the people's fortunes can come only through governmental intervention. This view is essentially statist and can apply to both, right and left of the political spectrum. But, it contains an element of Marxist dialectic that sees the world in terms of “us” against

“them”. Totally lost in this view is the possibility that the economy could ever function to the benefit of all. The past experience of the free market delivering an almost uninterrupted improvement of living conditions to those peoples who lived under it is simply discarded. Be it by design or not, the most potent tool used by the opponents of the free markets is the constant widening of the supposedly “victimised” groups. The Marxist dialectic, in other words, had ceased to be applied merely to the relations between the proletariat on the one hand and the bourgeoisie on the other hand. Today’s conflicts, neo-Marxists say, abound not just between rich and poor, but also between men and women, blacks and whites, gay and straight, young and old, etc. In order to tackle this inexhaustible array of victimisation, governments around the world are asked to pass ever-growing number of laws concerning human rights, equal opportunity, anti-discrimination, affirmative action and so on. As Henderson argues, every instance of unequal outcome is seen as a proof of unfair discrimination.<sup>11</sup> This preoccupation with disparities, whatever these may be, is already reflected in the vocabulary of the opponents of globalisation. In the standard anti-globalisation literature, such as the Human Development Report, such terms as “marginalisation”, “deprivation”, “exclusion”, disenfranchisement” and “victimisation” abound. As will be seen below, in the UK “social exclusion” had already been recognised as “the” problem to tackle. Thus, when a recent report found average per capita income in Cornwall below that in Southern England, the Deputy Prime Minister John Prescott immediately concluded that the “Cornish people are deprived” and called for their “empowerment”.<sup>12</sup>

This reliance on external reasons as sources of inequality is central to the views of such Cosmopolitans as Held and Giddens. As they see it, the contemporary state is responsible for the “maintenance and reproduction of systemic inequalities of



power and resource, distorting decision outcomes in favour of particular interests..."<sup>13</sup> At the core of their proposal for reform, therefore, is the expansion of the democratic decision-making. The practical application of such proposal rests in a creation of a decision-making process where individuals can meet and deliberate their laws as equals.<sup>14</sup> Of course, such an association is quite impossible for as long as individuals and groups remain widely disparate in what the Cosmopolitans call their "nautonomy" or "the asymmetrical production and distribution of life-chances, which limit and erode... [their] possibilities of political participation".<sup>15</sup> Nautonomy rests in a variety of sources. Amongst these are the access to welfare, healthcare, and work, which need to be as widespread as possible if the people are to be able to participate in the political decision-making in a meaningful way.<sup>16</sup> But clearly, most if not all of the nautonomic discrepancies can only be rectified if the wealth in the society is distributed in a way that will both limit disproportionate access of the few and enlarge the access of the many. In the area of economics, therefore, the Cosmopolitans accept that some form of a watered-down capitalism is the best economic system available, but maintain that unconstrained capitalism creates and enforces unequal distribution of resources. Nautonomy, in other words, is largely caused by the inequalitarian system of free market economics and must, therefore, be tackled through a tough form of "distributive justice".<sup>17</sup>

Similarly, in the international arena, internalisation of responsibility is rejected out of hand. Thus, Third World poverty is blamed on colonisation, overpopulation, lack of natural resources and, most importantly, economic exploitation. According to the Marxists, capitalism is by nature an imperialist economic system that leads to war. As Lenin put it, "imperialism is the highest stage of capitalism".<sup>18</sup> Colonisation and the WWI, therefore, are the prime examples used

by the Marxists in order to prove the validity of their theory and to attack the liberal economic system. The basis of this argument rests on the concept of exploitation, which maintains that labour and materials are the source of all economic value. The profit that a capitalist accumulates consists of the part of the value of the labour of the employee that is not returned to him in wages.<sup>19</sup> This is what Marx now famously called the "surplus value of labour". By keeping this surplus, Marxists continue, a businessman "exploits" his employees.

However, if profits consist of the part of the value of employees' labour that is not returned to them, then, logically, investment should flow to countries with low wages. In fact, in the last twenty years only one percent of direct foreign global investment went to sub-Saharan Africa, the region with lowest wages on Earth. Conversely, in 1994, nearly half of direct US investment of \$612 billion was invested in Europe. In the same year, nearly half of direct investment in the USA came from Europe.<sup>20</sup> All this despite lower, sometimes much lower, overhead costs being available elsewhere in the world. The reason for this discrepancy is that returns on investment in sub-Saharan Africa are well below returns elsewhere.<sup>21</sup> In other words, contrary to Marx, the cost of labour is at best a minor part in the capitalist decision-making.

The same was true during the colonial period, when wages were much more important a part of the cost of manufacturing. Between 1911 and 1913, more than four times the amount of British capital was invested in Canada as in all of Britain's African and Asian colonies, where the labour was infinitely cheaper. In fact, more British money was invested in the USA than in Canada. Yet, wages in the USA were higher than wages in Canada and both USA and Canada had wages higher than the ones in Europe. Also, the greatest French investment in Africa was in Algeria, where,

due to the presence of a large European community, wages were much higher than elsewhere in French African possessions. The reason why there was so little investment in countries with cheap labour was that returns on investment were tiny or non-existent. Perhaps the most glaring example of the Marxist fallacy are the former German colonies, which were, in fact, consistently making a financial loss.<sup>22</sup>

To sum up, whatever the driving force behind European imperialism, it was not based on sound economic logic. It flew in the face of profit-maximisation, which is the *sine qua non* of capitalism. In reality, prosperous states conduct most of their business with other prosperous states.<sup>23</sup> Their prosperity is, therefore, not dependent on exploitation, but on mutually advantageous trade. Thus, the states that participate in free trade grow richer, while states that adopt isolationist and collectivist policies do not. No example better illustrates this point than the difference between the capitalist Taiwan and Communist China. As is known, in 1949 China and Taiwan separated following a long civil war. Both countries shared the same population, language, and culture; their incomes per capita per were the same. By 1997, however, the Taiwanese GNP per capita was \$13203. Three years later, a comparable figure for China was only \$780.<sup>24</sup>

Despite all these facts, the left continues to oppose the enlargement of the freedom of the markets. Some of the most vocal have been the radicals protesting in Seattle, Prague, Nice and, most recently, Gothenburg.<sup>25</sup> The strategy of these groups is to mirror the meetings of the global bodies most associated with the growth of globalisation, such as WTO, IMF, and the World Bank and to protest, often violently, against the perceived injustices of globalisation. During the recent protests in Prague, for instance, the left-wing protesters expressed their conviction that capitalism is responsible for the poverty in the Third World. One of the protesters,

sporting a green hat decorated with dollar signs and claiming to be a caricature of a capitalist, said "I have children for lunch and I kill people in many countries of the world".<sup>26</sup> The banners of the protesters also showed their anti-capitalist sentiments. Some of them read "Capitalism Kills" and "Make Love Not Trade".<sup>27</sup>

Similarly, an anti-globalisation forum, taking place in Porto Alegre, Brazil, mirrored the recent 2000 Davos meeting. Entitled, the "World Social Forum", the conference discussed, "...how to produce and distribute wealth for all; how to construct financial system that will tend to equality; how to transform scientific development into human development; and how to explore the limitations and possibilities of planetary citizenship". Present were some of the most renowned political leaders of the contemporary left. Among them, Jean-Pierre Chevenement, member of Lionel Jospin's cabinet, who articulated his criticism of globalisation as being against "a world in which domination of capital and of the financial markets works against democracy, and works against the need for long-term investment in health, in education, in culture". [Mr Jospin himself was recently forced to acknowledge his involvement in the Trotskyite International Communist Organization. According to sources, Jospin had maintained contacts with the movement for over 20 years.<sup>28</sup>] Ahmed Ben Bella, the first president of independent Algeria was there too. He demanded, "a moment's silence in memory of his dear friend Che Guevara and spoke of the light which shone from his dead body in those pictures which were printed everywhere, which illuminates our way still".<sup>29</sup>

It must be borne in mind that not all groups opposing the free market are on the left of the political spectrum. However, because the concern of the right is different, in the sense that it does not focus on the centrality of the "inequality thesis" that is at the heart of this argument, it will be looked at only briefly. The right-wing

vision, then, is more in line with the mercantilist vision of the world. In the USA, for example, the 1990's marked the rise of the "paleoconservative" movement centred on the US presidential candidate Patrick Buchanan. His intellectual credibility supported by writings of Llewellyn Rockwell, Justin Raimondo and Hans Hoppe, Buchanan's political programme emphasised the isolationist "America First" foreign policy, economic protectionism, and opposition to immigration. Seeing them as a triumph of vulture capitalists, Buchanan earned his reputation through his opposition to the Gulf War, NAFTA, and the GATT. On the moral side of the argument, Buchanan's paleoconservatives emphasised cultural traditionalism and defence of America's European and Christian identity. The Christian right has, of course, always been suspicious of excessive individualism and moral relativism, and globalisation has come to be perceived as exacerbating both of these qualities. Seeing its deeply felt beliefs under threat, the Christian right stepped up its emphasis on the traditional family values as well as its attacks on the advocates of abortion and gay rights.<sup>30</sup>

It should also be recognised that opposition to globalisation is not limited to the developed countries only. Though it is true that developed states are most heavily affected by it, the underdeveloped world feels the changes too. Samuel Huntington's Clash of Civilisations went a long way in describing the unsettling impact of globalisation on other cultures, Islam in particular. Paradoxically, Huntington's own understanding of the process as synonymous with Westernisation has come under increasing strain precisely because of the increasing dissatisfaction with globalisation in the West. Clearly, the extreme left and the extreme right, be they in the developed or the underdeveloped world, see globalisation negatively. Though differing in the emphasis on what they perceive are the negative outcomes of globalisation, both

movements strongly believe globalisation to be offsetting and destructive to their preferred ideals of society. This unlikely alliance is best documented by the following example. As has been reported, on the very day NAFTA, one of the landmark treaties epitomising the contemporary globalising trends, went into effect despite the vigorous opposition of the American right, the Marxist Zapatista National Liberation Army rebelled in the Mexican province of Chiapis claiming that NAFTA meant "a death sentence" for Mexican indigenous population.<sup>31</sup>

## II. Hatred of the Markets

*These were people who believed everything about the Soviet Union was perfect, but they were bringing their own toilet paper.*<sup>32</sup>

- P. J. O'Rourke

This growing opposition to free market is not new. As Hayek argued, hatred of commercial activities is both eternal and universal.<sup>33</sup> For example, Cyrus the Great, Emperor of Persia in the sixth century BC, thus responded to a Spartan warning, "I have never feared people of such a type that they have a place set aside in the middle of their city where they gather to perjure themselves and deceive each other". As Herodotus explained, "Cyrus flung these words at all Greeks because they have established market-places, in which they buy and sell".<sup>34</sup> Of course, the Persian society could not function without trade and commerce. But, as Farron points out, the Persians located their markets "in the outskirts of their cities and towns".<sup>35</sup> Comparable dislike for commercial activities was widespread throughout the ancient world. In the *Odyssey*, for example, Odysseus is insulted because he resembles a captain of a merchant ship "with his mind set on greedy profit".<sup>36</sup> Also, writing in the

4<sup>th</sup> century BC, Plato observes through one of his characters, “all the classes engaged in retail and wholesale trade ...are disparaged and subjected to contempt and insults”.<sup>37</sup> Then he offers advice on how a city can protect itself against.

The first [rule] is to employ traders as little as possible; the second is to assign to that [commercial] activity those men whose corruption would be the least loss to society; the third is to find a way by which those engaged in commerce would not so easily be infected by shamelessness and meanness of soul.<sup>38</sup>

Plato also insisted that only non-citizens should be allowed to trade and a citizen who breaks this rule be put in jail and urged that the government should dictate prices and profits.<sup>39</sup> As Farron writes, Plato’s writings merely “systematised and subjected to law the de facto situation in Athens at Plato’s time, where resident aliens conducted most commercial activities”.<sup>40</sup> Similarly, Aristotle felt that commercial “exchange is justly condemned for it arises not from nature but from people profiting at others’ expense”.<sup>41</sup> The Roman upper class also stigmatised trade. Romans, like the Greeks before them, believed in the myth of a Golden Age without commerce.<sup>42</sup> Some of the greatest minds of the Republic took a dim view of trade and money-lending. Thus, Cicero narrates, Cato believed that agriculture was the honourable way of earning a living. When asked, “What about lending money?” Cato answered, “What about murder?”<sup>43</sup> Perhaps not surprisingly, the Latin word for merchant, *mercator*, could also be construed as a term of abuse.<sup>44</sup>

Of course, the Holy Scriptures also provide justification for anti-business sentiments. The only violent act of Christ, for example, is when he chases the traders

out of the Temple in Jerusalem. In the same vein, St Paul asserts, "The love of money is the root of all evil".<sup>45</sup> Thus, the Council of Lyons ruled in 1274 that individuals or communities harbouring usurers for more than three months would be excommunicated or interdicted. At that time, in addition to being denied confession and absolution, the usurers were prohibited from receiving a Christian burial.<sup>46</sup> On the Protestant side, Martin Luther observed, "The greatest misfortune of the German nation is easily the traffic in interest... The devil invented it".<sup>47</sup> The Koran also contains passages specifically prohibiting Muslims from usury. Likewise, it forbids profit-making. "Deal not unjustly (by asking more than your capital sums), and you shall not be dealt with unjustly (by receiving less than your capital sums) [original explanations]", it says.<sup>48</sup> The Jewish religion also forbids certain economic activities. The Israelites are, for example, banned from loaning money at interest to fellow Jews. At one point, lending money is listed as a culmination of such crimes as idolatry, adultery, and robbery.<sup>49</sup>

It will, therefore, come as no surprise that Dante Alighieri's Divine Comedy places usurers, blasphemers and sodomites in the lowest part of the 7<sup>th</sup> circle of Hell. Dante has done this, because he believed that, like the sodomites, usurers too have committed "unnatural" acts.<sup>50</sup> The opposition to the market reached its climax in the last century, when Nazis and Communists came close to eradicating it throughout the world. Hitler, Farron observes, like Cyrus and Plato before him, "assumed that 'subterfuge and swindling' are synonymous with commerce and that nations who practice it must be cowardly".<sup>51</sup> So, he often used the word "shopkeeper" as a form reproach. At the height of WWII, for example, "shopkeepers" was one of the most common derogatory terms he used to denote the American and the British peoples. In



the same vein, the Nazis often contrasted "Helden" [heroes] with their polar opposites, "Händler" [merchants].<sup>52</sup>

But, why is the opposition to market activities so widespread? The first reason has to do with what might be called "intuitive egalitarianism". As Hayek writes, left-wing intellectuals are prone to "rationalising and carrying to extremes certain ambitions which spring from the normal intercourse of men... The most powerful of these general ideas which have shaped political development in recent times is... the ideal of material equality". Egalitarian intellectuals, Hayek continues, thus perceive any action that increases equality as justified.<sup>53</sup> This is certainly true when it comes to the Cosmopolitans, who justify restriction of private property in terms of the contribution this makes to the overall goal of equality. The Cosmopolitan goal of equality, in other words, is incompatible with differences in wealth possession and these differences must, therefore, cease to exist. Of course, opposition to a meaningful conception of private property is inextricably linked to the acceptability of the free market economic system; a system the very existence of which depends on the said inviolability of private property.

And, here comes the second problem. As Held writes, ownership of personal items, such as "shirt on one's back" is acceptable, while ownership of "IBM shares" is not. It can hardly be lost that the difference between the types of private property that Held draws is based on a perception that their acquisition is somehow fundamentally different and that the acquisition of the latter is somehow morally deficient. But, what is it that makes wealth acquisition through trade, stock exchange and capital investment so unacceptable to a Cosmopolitan? The differences in possession of private property in a free economic environment arise out of different economic activities, such as trade, commerce, usury and, ultimately, capitalism.

However, the single most important factor that ties all these forms of free enterprise together, are the much-maligned acts of self-interest and profit-making. Be it the ancient world, where the precursors of modern businessmen traded wine across the Mediterranean Sea; agricultural societies, where the predecessors of the modern bankers lent moneys to those desperate to get through the barren months of the year; or the contemporary world, where pharmaceutical companies sell drugs to the sick, all these economic agents prospered and prosper through successful exploitation of human needs and desires.

As was shown above, profit-making activities have always been perceived as morally deficient, unjust and, therefore, wrong. As a result, market activities have always been regulated to a far greater degree than any other part of the life of a community.<sup>54</sup> Of course, opposition to creation of profit out of interactions between men is a fundamental tenet of Communism and, as will be shown, Nazism. The very insinuation that people do work in order to make money, as opposed to, for example, "helping" their fellow men by self-sacrificing themselves on their behalf, is abhorrent to the Communist mindset. Not surprisingly, therefore, the South African Minister of Justice, Penuell Maduna has recently lambasted the South African magistrates for demanding higher wages. In a confirmation of Johnson's dictum that patriotism is the last refuge of a scoundrel, Maduna accused the magistrates of "unpatriotic" behaviour. Magistrates, he continued, ought to serve the community and not "make riches". "When I studied law", Maduna shared with his audience, "I wanted to serve my people, not reap financial rewards".<sup>55</sup>

The socialist intellectuals in the UK and USA have renewed their attack on the profiteering aspect of capitalism as well. In the USA, after admitting that the word "socialism" has lost its forcefulness, Richard Rorty remarked that his fellow

“American leftist intellectuals stand in need of a new political vocabulary”. “I suggest”, he continued, “that we start talking about greed and selfishness rather than bourgeois ideology”.<sup>56</sup> Similarly, Marquand writes, “Central to almost all [socialist] groupings... were words like ‘co-operation’, ‘commonwealth’ and ‘fellowship’... [T]he term that encapsulated the essence of the socialist ideal was fraternity...” Capitalism, on the other hand, represents for Marquand a “relentless pressure to commodify all social goods”, to reduce all human intercourse to a “bottom line” of loss and profit.<sup>57</sup> But, can Marquand deny that Communism, rather than encouraging human intercourse, put an end to all forms of civil society? Or does Marquand feel that regardless of what the Communists did, at the very least they were not motivated by greed? If so, he is wrong. Conquest writes,

Corruption of every possible type flourished in all the Communist countries. But it is not only that the USSR, for example, became a vast kleptocracy, it is also the case that even the supposedly pristine revolutionaries were anything but immune. ...Milovan Djilas, then a Yugoslav Communist leader, was shocked at how his victorious partisans, on entering Belgrade, seized villas, cars, women, and so on. The same was, of course, noted of the Sandinistas when they entered Managua.<sup>58</sup>

To this abhorrence of the profit motive there must also be added the air of patronising self-righteousness with which the left treats the expressions of people’s preferences. No example illustrates this better than the contemporary craze against the American food chain McDonald’s. McDonald’s is a typical example of a

commercial enterprise that grows from strength to strength by providing the public with something that the public wants. Nobody forces the public to eat there, but the public does so anyway. Yet, the anti-globalisation protesters have determined that, somehow, the people are being wronged. And so, the protesters find themselves in a paradoxical position of protecting "the people" from "the people" themselves. Of course, there is absolutely nothing new about the aura of self-righteousness. As is well known, the Communist "guardians" in Eastern Europe *knew* the people's "true" desires just as well. Expression of a differing opinion, of course, was synonymous with suffering from false consciousness, which, in turn, mandated, incarceration in a mental institute or worse.

The philosophical grounding of this viewpoint maybe found in the writings of Antonio Gramsci. According to Gramsci, interests and preferences of actors are shaped by culture, politics, law and knowledge. When it comes to the economy, the theory goes, behaviour of actors takes place within a certain structure of ideas, culture and knowledge. Clearly, therefore, objectivity of such behaviour cannot be assumed. More likely, actors' behaviour will depend "upon prevailing beliefs and patterns of thinking in the world economy, many of which are embodied in institutions". Not surprisingly, these prevailing beliefs and patterns of thinking will mirror the beliefs of the dominant power. Thus, Woods writes, the Gramscian explanation of the recent upsurge of free market thinking simply reflects "US interests in the global economy, successfully projected through structures of knowledge (it became the dominant paradigm in top research universities), through institutions (such as the IMF which became forceful proponents of neo-liberal policy prescriptions), and through broader cultural beliefs and understandings..."<sup>59</sup>

Of course, at no point do the Gramscian scholars take into account the possibility that the effects of free trade may be compatible with people's preferences; that the convergence toward the neo-liberal paradigm may be a result of rational preferences of millions of people who lived under socialism and chose to rid themselves of it. This inability of the left-wing intellectuals to see common people's preferences as rational and legitimate may rest in what Chesher and Machan call the dualistic view of human experience. This dualism concerns the largely artificial distinction between the temporal and the spiritual experience and its hierarchical systematisation with, not surprisingly, intellectual pursuits emerging at the top. The fact that the intellectuals have a stake in preservation of this hierarchy and their subsequent privileged position at the top of the social ladder will not be lost. Nozick writes,

From the beginning of recorded thought, intellectuals have told us their activity is most valuable. Plato valued the rational faculty above courage and the appetites and deemed that philosophers should rule; Aristotle held that intellectual contemplation was the highest activity. It is not surprising that surviving texts record this high evaluation of intellectual activity. It is not surprising that surviving texts record this high evaluation of intellectual activity. The people who formulated evaluations, who wrote them down with reasons to back them up, were intellectuals, after all. They are praising themselves.<sup>60</sup>

Whatever the case, it is quite telling that the people, who never forgave the smallest shortcomings in the West, were prepared to overlook the grossest violations of human rights in the East. Thus, Lincoln Steffens, the well-known exponent of

American corruption, returned from the USSR saying "I have seen the future and it works". Returning from East Germany, Dr. Ralph Abernathy commented about this most oppressive of all East European dictatorships, "Every minute of my stay in your wonderful country was filled with joy and valuable political experience. I go back to my country the richer for having learned to know and appreciate the German Democratic Republic". The American social critic Scott Nearing said of East Germany that it "was governed wholly without coercion". Similarly devoid of truth was Walter Duranty's report that the famine in Ukraine had not happened. [Duranty was later to receive the Pulitzer Prize for his journalistic exertions.] Manning Clark, the famous Australian historian, said of Lenin that he was "Christ-like, at least in his compassion". Similarly, the French novelist Romain Rolland described Genrikh Yagoda, the chief of the Soviet secret police, as "sensitive and intellectual". Then there are Sidney and Beatrice Webb, who together with the historian Sir Bernard Pares and Harold Laski, the one-time chairman of the Labour Party, maintained that the Communist show trials were "genuine exercises in truth and legality". Laski was later to say of Vyshinsky, the man responsible for the above trials, that he was "a man whose passion was for law reform... He was doing what an ideal Minister of Justice would do if we had such a person in Great Britain". Owen Lattimore said of I. F. Nikishov, the head of the Soviet Gulag system, that he had "a trained and sensitive interest in art and music and also deep sense of civic responsibility". Few can top H. G. Wells' impression of Stalin. He wrote,

I have never met a man more candid, fair and honest, and to these qualities it is, and nothing occult and sinister, that he owes his tremendous undisputed ascendancy in Russia. I had thought before I

saw him that he might be where he was because men were afraid of him but I realise that he owes his position to the fact that no one is afraid of him and everybody trusts him.

Stalin's executions and purges of 1936-1938, George Orwell writes, "were applauded by lifelong opponents of capital punishment". "It was considered... proper to publicise famines when they happened in India", he continued, "and to conceal them when they happened in Ukraine". Guy Burgess and other homosexuals venerated the USSR, even though homosexuality was criminalised there until the end of Communism. In Communist Cambodia, homosexuality was punishable by death.<sup>61</sup> Many left-leaning Jews continued to speak glowingly of the USSR, despite Stalin's anti-Semitism. Eugene Lyons "records the admiration for Soviet industrialisation expressed by a couple of California back-to-nature, hand-loom faddists". Even Christian dignitaries found words of praise for the godless dictatorships. Sherwood Eddy, leader of the YMCA, wrote,

Russia has achieved what has hitherto been known only at rare periods of history, the experience of almost a whole people living under a unified philosophy of life. All life is focused in a central purpose. It is directed to a single high end and energised by such powerful and glowing motivation that life seems to have supreme significance. *It releases a flood of joyous and strenuous activity* [emphasis added].<sup>62</sup>

Foucault approved of both, Maoist purges and Khomeini's fundamentalism. In what was to become the typical response of the leftists to any criticism levied against

them, Foucault had convinced himself of moral equanimity between the USSR and USA. As he stated, "What could politics mean when it was a question of choosing between Stalin's USSR and Truman's America?"<sup>63</sup> Then there is Jean-Paul Sartre, who upon his return from Russia in 1954 stated, "Freedom of criticism in the USSR is total".<sup>64</sup>

As D'Souza shows, authors of influential textbooks used at high schools and colleges did their part to perpetuate socialist myths. In 1982, the renowned Sovietologist Seweryn Bialer claimed that "The Soviet Union is not now nor will it be during the next decade in the throws of a true systemic crisis, for it boasts enormous unused reserves of political and social stability". Arthur Schlesinger, Jr. stated, "those in the United States who think the Soviet Union is on the verge of economic and social collapse" are "wishful thinkers who are only kidding themselves". Paul Samuelson, a Nobel Prize-winning economist wrote in 1985, "What counts is results, and there can be no doubt that the Soviet planning system has been a powerful engine for economic growth... The Soviet model has surely demonstrated that a command economy is capable of mobilising resources for rapid growth".<sup>65</sup> Similarly, McConnell's Economics claimed as late as 1987 that "the Soviet growth rate has generally exceeded that of the United States in the post-World War II period as a whole".<sup>66</sup> In the same year, Robert Solow, another Nobel Prize Winner stated, "I still believe the institution of private property has to keep proving itself" and then referred to Proudhon's dictum that "property is theft".<sup>67</sup> Only months before the collapse of Communism, Lester Thurow, an MIT economist wrote, "Can economic command significantly... accelerate the growth process? The remarkable performance of the Soviet Union suggests that it can... Today the Soviet Union is a



country whose economic achievements bear comparison with those of the United States".<sup>68</sup>

It is known now that the communist countries falsified their economic data, sometimes exaggerating them and sometimes inventing them. No wonder then that in 1989, the US Department of Commerce estimated that per capita income in East Germany was higher than that in West Germany and that East German GDP per capita was higher than that of Japan!<sup>69</sup> Yet, no lesser figure than John Kenneth Galbraith was willing to believe these statistics. As he stated

That the Soviet system has made great material progress in recent years is evident both from the statistics and from the general urban scene... One sees it in the appearance of solid well-being of the people on the streets... and the general aspect of restaurants, theatres, and shops... Partly, the Russian system succeeds because, in contrast with the Western industrial economies, it makes full use of its manpower... The Soviets [do not] have our Veblenian leisure class – the considerable number of people who are released by material wellbeing from manual and mental toil.<sup>70</sup>

Galbraith said this in 1984. Within a year of this statement Gorbachev revealed to the world that the Soviet economy was in deep trouble. Four years later the socialist experiment collapsed in its entirety. In 1999, Galbraith's life-long work of misleading of the American public as to the advantages of socialism and shortcomings of their own economic system earned him the Presidential Medal of Freedom – the highest honour an American civilian can receive. Harvard University

President, Neil L. Rudenstine, commented, "This is an honour in which all of us rejoice. For a good deal more than half a century, Ken Galbraith has brought intellectual incisiveness, generosity of spirit, stylistic elegance, sheer sanity, and great good sense to the world of our public discourse".<sup>71</sup>

It is implausible that all the above people were cheated by the Communist propaganda. At least on some occasions, be it in Hungary in 1956 or Czechoslovakia in 1968, the brutality of the Soviet regime should have become obvious. But, blinded by the idea of equality and abhorrence of the free market, the left was largely silent. Even with the demise of Communism and opening of the Soviet archives, through which the Red Terror became apparent, many on the left are not prepared to face the reality. No example shows this better than Michael Ignatieff's "The Late Show" interview with a prominent historian, Eric Hobsbawm. Ignatieff asked Hobsbawm to explain his long membership of the Communist Party. Hobsbawm replied that he "didn't have an option". "You see", he continued, "either there was going to be future or there wasn't going to be a future and this [Communism] was the only thing that offered an acceptable future". Ignatieff then probed Hobsbawm on the justifiability of the suffering that the Soviet people endured under their Communist rulers. Hobsbawm replied that in retrospect the suffering involved in the Soviet experiment was "probably only marginally worthwhile", because of the type of state that the Soviet Union turned into. Pressing the issue, Ignatieff asked, "What that comes down to is saying that had the radiant tomorrow actually been created, the loss of fifteen, twenty million people might have been justified?" Hobsbawm's response was, "Yes".<sup>72</sup>

The radiant tomorrow that Hobsbawm spoke of was the Communist ideal of equality. In his mind, this was a goal worth pursuing and indeed, dying for.

Moreover, as he stated, it was the only "acceptable" future and no alternative was feasible. Obviously, Hobsbawm was not the only academic to share this view. As has been shown, thousands of people across the world felt the same and some still do. In a recent article entitled "The People's Paradise Crumbles", John Gittings narrated the following story from his trip to North Korea. As he was walking through the empty shopping malls, his North Korean minder mused, "People don't need to buy goods so much". "Our government", he said, "supplies the essentials through the public distribution system. There may be less quantity compared to the past, but we equalise the rich and the poor".<sup>73</sup> What this statement shows is that the notion of equality has, as in Hobsbawm's case, assumed a position of central importance in the political language and thus in the struggle of the governing elite to legitimise its own hold on power. It does not matter that North Korean Communism has obviously failed to do what the Marxists intended - that is, to improve the lives of everyone. Neither does it matter that they have instead made lives miserable for everyone but the tiny governing elite. What matters, is that everyone suffers equally.

But, Kenneth Minogue wrote, "as radicals have lost plausible utopias of one kind or another - from the Soviet Union to Cuba - they have become more ferociously intolerant of the society in which they live".<sup>74</sup> Herbert Marcuse, for example, used to champion his concept of "repressive tolerance" in a belief that freedom of speech and freedom of assembly are "deceptive alibis for oppressive state power". "Liberating tolerance", he wrote, "would mean intolerance against movements from the Right, and toleration of movements from the Left". Indeed, Marcuse even sanctioned "extralegal means" in suppressing the anti-Leftist opposition. As he continued, "Different opinions... can no longer compete peacefully for adherence and persuasion on rational grounds: the 'marketplace of

ideas' is organised and delimited by those who determine the national and the individual interest. In this society... the false consciousness has become the general consciousness...".<sup>75</sup>

If it wants to keep its ideals relevant in the post-1989 world, Conquest argues, the left has no choice but to reinvent history. The radical scholars must, therefore, keep the casualties of Communism low, treat the oppression under Communism as minor matter, favour "dispassionate" scholarship of Communism over a "judgmental" one, deny the validity of the word 'totalitarian' and strive to present Stalinism and Maoism as normal.<sup>76</sup> Indeed, ferocious rewriting of history is already beginning. John Le Carré, for example, claimed that "capitalism was today killing many more [people] than Communism ever had". Nigel Nicholson claimed that Solzhenitsyn "had betrayed his country just as Anthony Blunt had his". Recent CNN Cold War television series claimed that Stalinism in the USSR was offset in the USA by McCarthyism.<sup>77</sup> Then there is Mike Davis' book entitled Late Victorian Holocausts that claims that in the last quarter of the nineteenth century, between 30 and 60 million people died as a result of capitalism and so on.<sup>78</sup>

Likewise, in the newspapers and magazines across the UK, the shortcomings of the free markets are once-again hotly discussed. Eric Hobsbawm, for example, recently expressed his concerns. He evoked the Asian economic crisis and the unsatisfactory economic transformation in Russia to argue that markets, allowed to run rampant, spell disaster. Consequently, he argued, there is a need for the most powerful governments to take a coordinated action to control and to regulate them. The main problem today, Hobsbawm reasoned, is to distribute wealth. "Doing something about the growing inequality and social maldistribution", he wrote, should be the role of the nation-state. "It is time for the Labour Government to remember",

he continued, "that its major objective is not national wealth but welfare and social fairness".<sup>79</sup>

Similarly, the former defender of the free markets, John Gray, has now turned against them. The main focus of his criticism is what he sees as the extreme rationalisation of the social life. According to Gray, the neo-liberal dogma is assuming an air of infallibility that requires all facets of public life conform to it.<sup>80</sup> This dogmatism applies especially to the teachings of F. A. Hayek. Hayek's theory of the spontaneous emergence of the free market, Gray now argues, is a sham for its freedom can only be guaranteed and defended by the state.<sup>81</sup> In order to do so, the state has to engage in social engineering comparable to that of the communists.<sup>82</sup> One of the biggest dangers ahead, Gray contends, is an increase in intra-national and international inequality.<sup>83</sup> He then evokes the events of 1929 to show both that the markets are not to be relied upon and to point out that the state is the natural means of protection for the people against the excesses of the markets.<sup>84</sup> He then uses the arguments about the instability of the markets made by the financier George Soros. Soros has over the past decade become very critical of the dangers inherent in "unconstrained" capitalism. In his autobiography, he stated, "The collapse of the global marketplace would be a traumatic event with unimaginable consequences. Yet I find it easier to imagine than the continuation of the present regime".<sup>85</sup>

Then there is Neil Clark, who bemoaned the arrival of the free market in his adopted homeland, Hungary. Professing to have left Britain because of the effects of Thatcherism on British society, Clark commended the post-communist Hungarians for their high degree of social cohesion, education and culture. His hope, he writes, was that Hungary would be able to preserve "the solid social achievements of the old [communist] system".<sup>86</sup> Today, Clark continues, his hopes are dashed. Crime is high,

educational standards low and the health service moves from crisis to crisis. Culture too is suffering from capitalism. "Saturday night prime-time television", he reflects, "usually featured poetry reading and a classical music concert. Now, on a Saturday night we can choose between nearly 20 channels, almost all of them showing mind-numbingly inane game shows or American 'action movies' resplendent with blood, gore and expletives."<sup>87</sup>

Finally, there is Michael Prowse, who recently commented on the "galloping Americanisation of British life". "Britons", he wrote, "like Americans now work all hours: the workaholism that started in the City has become a national disease". "The London traffic", Prowse continued, "is now relentless seven days a week. Every Sunday has its rush hour as the shoppers flood into the malls to pay their respects to *Mammon*. When I ventured out this week, I began to understand what Karl Marx meant when he wrote of 'commodity fetishism' [*italics added*]."<sup>88</sup> Cultural life suffers too, it seems, for children and young people can find nothing on the television that will broaden their horizons. "My point is simply", Prowse concludes, "that market alone cannot create either a good society or happy citizens. ...If society becomes too thoroughly 'marketised', if the principle of private pursuit of personal gain becomes too dominant, then people become greedy and selfish. Britain is now running that risk".<sup>89</sup>

### III. Hypocrisy

*"...[And] from the nothingness of good works, she passed to the somethingness of ham and toast with great cheerfulness."*<sup>90</sup>

- Charles Dickens

As Robert Lacey wrote, "The pursuit of equality has been one of the great religions of the twentieth century, and like all religions it has generated more than its fair share of hypocrisy".<sup>91</sup> Indeed, some the greatest opponents of capitalism have been the same people, who not only enjoyed the fruits of capitalist progress, but who also participated in quintessentially capitalist activities, such as money lending.<sup>92</sup> Following German unification, for example, the Junkers, the rural gentry class, felt most threatened by the expansion of the free market and led the opposition against it. Yet, it was the Junkers, who spearheaded the highly speculative railway construction enterprise. Some of the noblemen closest to both Bismarck and Kaiser Wilhelm engaged in trade with ferocity.<sup>93</sup>

Similarly, many critics of materialism were more than willing to partake in the market process when it suited them. Beethoven, for instance, valued his artistic independence, but found that selling music was by far the most effective way of ensuring that independence.<sup>94</sup> Gauguin made his money as a stockbroker – the archetypical capitalist activity. He then left France for Tahiti in the hope that his art would appreciate in value whilst he was gone. On the island, "he constantly monitored the value of his pictures in France".<sup>95</sup> T. S. Eliot, the voice of a "disillusioned" generation, worked for Lloyd's Bank. The leaders of the French anti-establishment cultural revolution of the 19<sup>th</sup> century, including Cézanne, Degas,

Delacroix, Manet, and Monet, lived off their families. As Cowen writes, most of the funds the above revolutionaries lived off were of commercial origin. The venomous Verlaine also lived off his parents, as did Baudelaire and Flaubert.<sup>96</sup> Shakespeare wrote his plays for money. Bach and Hayden sold their music.<sup>97</sup> Mozart wrote, "my sole purpose is to make as much money as possible; for after good health it is the best thing to have".<sup>98</sup> Benvenuto Cellini wrote, "I'm a poor goldsmith, and I work for anyone who pays me".<sup>99</sup> While receiving his Oscar, Charlie Chaplin said, "I went into the business for money and the art grew out of it".<sup>100</sup>

Politicians' attitudes towards the role of the market in society, especially where the provision of health care and education are concerned, matter greatly. Should, the question goes, the market forces be allowed to determine the education of the nation's children? Should the market determine the care for the elderly? These are fundamental questions and the answers given are, usually, negative. Health and education, it is often said, need to be left to the public-spirited civil servants, not the "greedy" capitalists. And it is from these "greedy" capitalists that the welfare state claims to protect the most vulnerable members of the society; children and the elderly. The truth, however, is not so simple. The welfare state damages the interests of the poor and this is recognised even by the advocates of the welfare state, who are, incidentally, the first ones to opt out from it.

US federal employees, for example, are exempt from mandatory contribution to Social Security. Instead, they have given themselves the right to invest in private pensions schemes, thus reaping greater future benefits than the rest of the population can. Members of the Hispanic and Black Congressional Caucuses, who ferociously defend public education in the USA from any mention of vouchers, send their children to private schools. According to the Heritage Foundation survey, 70% of the



Hispanic and 30% of the black members of congress do so, even though only 6% of the Hispanic and 4% of the black families send their children to private schools. Other great advocates of the welfare state and public education, Bill Clinton, Al Gore and Jesse Jackson among them, have also been hypocritically providing for their children's futures by sending them to private schools.<sup>101</sup> But, this is also the practice of the teachers working in the public sector. For example, 46% of white and 56% of black public school teachers in the Chicago area choose to pay fees for private education.<sup>102</sup> Similarly, the Canadian politicians have built for themselves a Senior Executive Clinic, serving exclusively the "900 deputy ministers, assistant deputies, departmental directors and heads of special agencies" as well as "65 senators, 166 members of parliament and 198 senior executives".<sup>103</sup> This should prevent them from having to suffer delays in provision of medical care that the public has to put up with.

Despite this practical acknowledgement of the benefits that the market brings, many people continue to advocate policies aimed to further constrain it. Clinton, to give one example, wanted to nationalise healthcare in the USA. Next chapter will analyse an elaborate example of such conflicted vision. As will be seen, the Cosmopolitans acknowledge the superiority of the market mechanism, when compared with its socialist competitor, and then proceed to explain why the very aspects that make capitalism so effective should be restricted or banned altogether. The stock exchange, for example, is clearly a place without future in the Cosmopolitan proposal. Yet it is precisely the stock exchange that enables the market to direct capital in directions where it will be most useful. It is, in other words, one of the very aspects that make capitalism more efficient than any other economic system in human history.

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## Chapter Four

*The lesson given to mankind by every age, and always disregarded – that speculative philosophy, which to the superficial appears a thing so remote from the business of life and the outward interest of men, is in reality the thing on earth which most influences them, and in the long run overbears any influences save those it must itself obey.<sup>1</sup>*

- J. S. Mill

The preceding chapter looked at the opposition to free markets in general terms. As has been seen, there is a long tradition of left-leaning intellectuals opposing market forces, preferring instead the guidance of the state. The underpinnings of this opposition are manifold. Firstly, there is the bias of these intellectuals in favour of activities directly connected to the welfare of the mind. Welfare of the body, however, has been frowned upon at least since the time of Plato. Secondly, there is the intellectuals' unease with the concept of profiteering and the feeling that actions leading to accumulation of wealth through trade are immoral. This is so despite the fact that in a free market economy profits normally arise out of providing the populace with what the populace wants. Thirdly, there is the connected issue of the intellectuals' arrogant belief in the superiority of their own wisdom and a feeling that the masses of people need to be led and directed in a certain way. Fourthly, there is the issue of inequality. There is a large number of intellectuals who believe that equality before the law is not good enough; that true equality must also be material equality or equality of outcome. The free market is seen to be encouraging this inequality. Underlying all this is the mistaken view that all people and all groups are

capable of achieving approximately the same degree of material well-being and that, when this is not the case, inequality is in itself a sign of discrimination somewhere along the line. This is the view held by the Cosmopolitan school of thought and it will be discussed in the first part of this chapter. The second part of this chapter will offer a different view of inequality. As will be shown, the spread of the free markets does, in fact, encourage a more even spread of wealth. That is, countries which embrace capitalism end up with a more dispersed – albeit unequal – distribution of wealth. This is so, because unlike in tribalism, feudalism or socialism, in capitalism wealth cannot be maintained by means of force, with one small group of people expropriating for themselves privileges unavailable to others.

### **I. The Cosmopolitans and The Third Way**

*Experience should teach us to be most on our guard to protect liberty when the Government's purposes are beneficent. Men born to freedom are naturally alert to repel invasion of their liberty by evil-minded rulers. The greatest dangers to liberty lurk in insidious encroachment by men of zeal, well meaning but without understanding.<sup>2</sup>*

- L. Brandeis

Some of the fiercest critics of the social changes associated with the growth of the free markets are to be found amongst the 'transformationalists'. In much of the literature, the transformationalist school is linked with a much wider body of thinking, which is becoming increasingly influential in philosophical and theoretical circles in the social sciences and which is also beginning to have an impact on

practice. This wider approach is usually termed "Cosmopolitan"<sup>3</sup>. Over the last ten years in particular, these two trends have also become linked with a more general policy-oriented trend in centre-left governments and policy institutes, usually referred to as the 'Third Way'.<sup>4</sup> The link between policy intellectuals and governments are complex and overlapping and could be the subject of a thesis by itself. However, this chapter will focus on the intellectual core of the argument as manifested in some of its key intellectual figures. These will be Giddens and, most relevant for international relations, David Held.

In their work, Giddens and Held share an emphasis on class, social exclusion and the "excesses" of the free market. Giddens' other close intellectual proximity is to the current British government and its Prime Minister, Tony Blair. It was to Blair's politics that Giddens lent intellectual credibility by articulating Blair's programme in his now famous 1998 book The Third Way. The book was appraised across the moderate left wing of the political spectrum. Blair called it "...a global attempt to apply progressive values in new ways". Romano Prodi, the former Italian Prime Minister and the current President of the European Commission stated, "We need new thinking about democracy and economic development. Tony Giddens gives us some vital clues about how to achieve these aims". Similarly, President Cardoso of Brazil commended Giddens for marking "a major further development in the evolution of the left".<sup>5</sup>

Giddens' intellectual development was, it seems, marked by the collapse of Communism and the rise of the neo-liberal economic doctrine exemplified by Thatcher and Reagan. As a result, Giddens and many others found it inevitable to accept capitalism, while at the same time emphasising the need for tackling its apparent excesses.<sup>6</sup> This seeming conflict between unconstrained capitalism on the

one side and public welfare on the other side is a growing area of study and a concern that with increasing frequency determines the direction and the tone of public debate. Giddens' own approach to the problem is a departure from the previous left-wing policies. The Third Way, he writes, recognises the demise of Socialism for what it was, a fundamentally flawed socio-economic system. Consequently, Giddens argues, New Labour has to embrace some of the neo-liberal reforms. As such, Giddens seems to recognise that the former social system based on an unsustainable plethora of entitlements without the accompanying need for responsible behaviour was, in the long run, unworkable.<sup>7</sup> His recent work, The Third Way and its Critics, exemplifies Giddens' acceptance of some form of neo-liberal socio-economic understanding. It is here that he answers the variety of criticisms from the left of the political spectrum. The book is significant, because it shows how far to the left this guru of the Third Way is willing to go in order to blunt the criticism of the extremists.

Giddens' opening is in line with the expected. "Decent society", he says, requires social goods that markets cannot provide.<sup>8</sup> Moreover, unregulated markets are inherently unstable, but regulated markets are "peaceful".<sup>9</sup> In order to regulate them, Giddens proposes a) surveillance of the capital movements, b) establishment of the lender of last resort and c) waging a global war on poverty.<sup>10</sup> Domestically, too, the markets do not produce optimal results and should not be excessively relied on.<sup>11</sup> Although it is true that in the past both the government and the markets have been the problem, Giddens continues, laissez-faire has gone too far. Therefore, what is needed is more government, not less.<sup>12</sup> The economy must be constrained in the interests of "social justice" and "social solidarity".<sup>13</sup> These two, in his view, are the ultimate goals in public policy decision-making. Of course, the offshoot of this



emphasis on "social justice" is the left-wing commitment to egalitarianism. He writes, "Third way politics look... to maximise equality of opportunity. However, this has to preserve a concern with limiting inequality of outcome too. The chief reason is that equality of opportunity can generate inequalities of wealth and income – that then hampers opportunities for subsequent generations".<sup>14</sup> And, because today the free market has resulted in the enlargement of material inequalities, the "morally compelling solution" is to take from the rich and give it to the poor.<sup>15</sup> The essential pillars of such "solution" are, firstly, progressive taxation, albeit, not as extremely polarised as before and, secondly, the inheritance tax.<sup>16</sup> These should, ideally, move society closer towards limiting social exclusion, another major concern of the Third Way. Social exclusion, as Giddens defines it, "refers to circumstances that affect more or less the entire life of an individuals, not just a few aspects of it".<sup>17</sup> The ultimate test of Third Way social policy rests in its ability to reduce numbers of those, who would otherwise be left behind.<sup>18</sup> But, it is Held who provides the most detailed proposal for reform.

Cosmopolitans see the globalisation-induced changes as an opportunity for the "reconstitution" of the power, functions and authority of national governments. Why this "reconstitution" of the proper scope of governmental intervention should be welcomed is made clear by Held's claim that "...the state has been locked into the maintenance and reproduction of systemic inequalities of power and resource, distorting decision outcomes in favour of particular interests..."<sup>19</sup>. There are a number of issues in need of clarification. Since it is the problem of "inequality" that Held sees the greatest need of and opportunity for rectifying, it is obvious from the start that the pursuit of "equality" will be central to this discussion. The question then becomes, what sort of equality is Held thinking of? The inequality Held begins by

referring to, is one of "access" to political decision-making. Held obviously believes that not all the people can enjoy what they are rightfully entitled to and that is, equal say in matters of public policy. Held's "Cosmopolitan project" is thus clearly rooted in the belief that the contemporary democratic model makes political equality at best theoretical. Why, however, should equality of political access be good or desirable? Clearly, Held believes that inequality of access to political decision-making results in the unequal distribution of resources. His point of departure, therefore, is a presupposition that political inequality results in material inequality. Logically, therefore, it must be expected that were the access to political decision-making equal, the material distribution would become equal too. However, this equation works the other way as well. Material inequality results in political inequality. Therefore, the only possible solution is to rectify both inequalities. Moreover, such equalisation has to happen synonymously. Failure to do so will result in the perpetuation of one type of inequality and, consequently, postponement of the other type of equality. Held's entire argument is thus an interplay between the two types of inequality and a search for a way to rectify them.

How is this rectification to take place? The above statement clearly implies that the rectification of inequality in political decision-making shall have to happen as a result of tackling of the problem of "democratic deficit". However, this can only happen if the democratic base is broadened to include all those eligible to participate. Failure to do so will result in the reaffirmation of the contemporary system that serves only the interests of "particular groups". Indeed, Held points out that there is a "tension" between the very ideas upon which the contemporary state is built and the fulfilment of true democracy.<sup>20</sup> Therefore, a rethinking of the "fundamental conditions of a democratic polity and the limitations of existing accounts of

democracy” and the consequent proposal for greater democratic participation in global governance is at the heart of the Cosmopolitan plan for the rectification of inequality.<sup>21</sup> Thus Held’s Cosmopolitan project is no less than an advocacy of a new model of democracy; an employment of the opportunities provided by the offsetting effects of globalisation for the reform of the whole democratic model. At the core of Held’s proposal for the expansion of democratic decision-making is his re-definition of the principle upon which global governance should rest. This he calls the “principle of autonomy” where,

Persons should enjoy equal rights and, accordingly, equal obligations in the specification of the political framework which generates and limits the opportunities available to them; that is, they should be free and equal in the determination of the conditions of their own lives, so long as they do not deploy this framework to negate the rights of others.<sup>22</sup>

The Principle’s function, therefore, is twofold. Its first function is to provide an egalitarian framework for political action. This is the principle’s positive or creative function. But, there is also a negative or limiting function. This is also to reconcile, in a better way than the present model of liberal democracy does, individual right to self-determination with the necessary constraints on popular sovereignty. What do these “constraints” mean and why are they necessary? Traditionally it has been understood that, besides an area subjected to the control of the government, or the public sphere, there should also be a private sphere safe from such interference. As has been seen in the first chapter, the establishment of a proper boundary between the

determining power of the state on the one hand, and the autonomy of the individual on the other hand is a subject of fundamental importance in political theory.

Of course, reconciliation of the public and private spheres of socio-economic life is inextricably intertwined with the question of freedom, equality and socio-economic policy in general. Should, for example, the government mandate "social provisions"? Are the people entitled to medical help? If so, are they also entitled to aid during unemployment? If so, do they have a right to a certain number of holidays, working hours and lunch-breaks? The list goes on. Clearly, there is no agreement on such universal entitlement scheme, just as there is no agreement on the scope of governmental control. Occasionally, there are attempts to do just that. The European Declaration of Fundamental Rights, for example, explicitly mentions a number of "social provisions" that the Europeans should enjoy as a matter of rights. But, immediately, questions arose. Was the Declaration legally binding or not, the politicians and legal experts asked? Could the European Court of Justice be used to enforce these new rights, even if these were not included in the present British legal system? What about national competitiveness? How would Britain compete against nations that did not sign this document and were, consequently, unburdened by its costs?

In fact, this disagreement between what the government should and should not do became synonymous with the distinction between political rights, such as freedom of expression, and economic rights, such as entitlement to healthcare. These in turn came roughly to correspond with Berlin's distinction between negative and positive liberty. During the Helsinki Accords, for instance, the USA insisted on the inclusion in the final document of what the Americans called the First Basket of Rights. All of these were negative in nature. Thus, the Americans argued, the people

of the Communist Bloc should be free from coercion when exercising their right to assembly, to worship and to free expression of their thought. The Soviets, on the other hand, insisted on the inclusion of a number of positive freedoms, which came to be known as the Second Basket of Rights. Among these were a right to universal welfare and healthcare.<sup>23</sup> In fact, the emphasis on the different baskets of rights clearly elucidated the differences in the political philosophies of the USA and the USSR. The American political system, much like the one in Britain, is steeped in the tradition of fighting against political oppression. Its legitimacy rested on allowing the populace to make the best of life free from political oppression. The legitimacy of Communism, however, rested on the Soviet ability to provide the populace with social and material well-being. In order to preserve the liberty of the individual, the American system accepted material inequality as inevitable. In order to promote equality, the Communists turned the USSR into a totalitarian state.

The following example should further elucidate the issue. Let it be supposed that person A needs healthcare but cannot afford it. According to the logic of positive liberty, he may still have the freedom or an entitlement to be provided with healthcare. Someone else must, therefore, meet the cost of such a provision. Very likely, such a person will be B, who has the money to cover not just his own healthcare but also the healthcare of A. Consequently, money will be taken from him. The positive freedom of person A, in other words, trumps the negative right of person B not to be coerced into sharing some of his earnings. The situation can also be reversed. Person B might be, according to the logic of negative liberty, entitled to be left in charge of his earnings. The negative liberty of person B not to be coerced into sharing his income, therefore, trumps the positive right of person A to healthcare. The practical outcome of these two interpretations liberty could not be

more different. States that adopt some form of negative liberty as a guiding principle of political decision-making are generally seen to have a higher degree of personal freedom, but a greater degree of inequality. States that adopt some form of positive liberty are seen to be more equal, but less free. Of course, things can and do get more complex. The proponents of negative liberty argue that their system is, in fact, egalitarian for it guarantees equal protection from coercion to everyone. The proponents of positive liberty, on the other hand, argue that their system is about the freedom to choose from a variety of choices that would normally not be available.

Held's own intuition is to reject the first view and to adopt the second one. Negative liberty, he argues, does not only produce material inequality. The direct outcome of material inequality is a political inequality and the disenfranchisement of the majority. The problem with globalisation, therefore, is that it marks a departure from the days of greater equality and social welfare. By catering to the needs of the market, governments allow for an accumulation of wealth that threatens the very basis of democracy, especially the ability of all equally to participate in the decision-making process. According to this argument, the laws are no longer made by the people and for the people. On the contrary, they are made on behalf of large corporations and vested business interests. Whatever this political system is, it is not a democratic one. Negative liberty, therefore, fails on both accounts. Not only does the lack of available choices make the people unable to fill their potential to its fullest, but it also fails to guarantee more than theoretical political freedom. Held writes, "some of the main threats to autonomy in the contemporary world can be related not to demands for equality for the majority to level social difference, as thinkers from Tocqueville to Hayek have feared, but to inequality, inequality of such magnitude as to create significant violations of political liberty and democratic

politics".<sup>24</sup> The liberal democratic "promise of a community which is governed by a fair framework... which is... equally constraining and enabling for all its members", Held continues, has clearly been compromised, thus making it unsatisfactory as a foundation of the future democratic structure.<sup>25</sup> The practical application of the Principle of Autonomy, therefore, must mean transcendence of those aspects of the social life that prevent a creation of a common structure of political action where individuals can meet and deliberate the conditions of their association as equals.<sup>26</sup> This, however, is impossible for as long as a material kind of inequality, which Held calls "nautonomy", persists.

Nautonomic inequality, Held argues, rests in "the asymmetrical production and distribution of life-chances which limit and erode the possibilities of political participation".<sup>27</sup> Whenever there is nautonomy, in other words, "democracy becomes a privileged domain operating in favour of those with significant resources".<sup>28</sup> But, what does Held mean by "life chances"? As Giddens writes, "life-chances" are "chances a person has of sharing in socially generated economic, cultural or political goods, rewards and opportunities typically found in his or her community." Since the issue of nautonomy will be of central importance to this discussion in the following chapters, it is perhaps worthwhile to quote at length Held's view on how nautonomy functions in practice.

Nautonomic structures are shaped by the availability of a diverse range of socially patterned resources, from the material (wealth and income) through the coercive (organised might and deployment of force) to the cultural – the stock of concepts and discourses which mould interpretative frameworks, tastes and abilities. *The availability*

*of such resources in a community depends evidently enough on the capability of groups to exclude 'outsiders' and to control resources denied to others.* The attempt to control, if not monopolise, any range of resources according to particular social criteria, such as class, race, ethnicity or gender, can be denoted a form of 'social closure'...the formation of dominant classes in different types of society was achieved via decisive control of resources, which often included not only land or capital but also armed force and 'esoteric knowledge'. Any system of power in which particular life-chances and opportunities are subject to closure can create nautonomic outcomes and, thereby, undermine or corrode the principle of autonomy [emphases added].<sup>29</sup>

How can the presence of nautonomy be ascertained? How, in other words, is this important social phenomenon to be measured? Held provides the answer.

The prevalence of nautonomy in any given site of power can be assessed by a number of indicators including whether and to what extent people have *access* to that site; whether *opportunities* within it are open or closed; and whether *outcomes*, be they assessed in terms of education levels, jobs or a range of cultural activities, are biased in favour of certain groups or interests [original emphases].<sup>30</sup>

It follows logically that whenever a definable group of people exceeds the average level of performance or outcome, it makes the presence of nautonomic factors clear.



Such a situation is thus obviously unjust and needs to be rectified. Or, to put it more directly, superior performance in any given activity of one distinct group over another necessitates correction. As will be seen below, this is a crucial point. Another point that needs stressing is Held's discovery of what he calls the "seven sites of power". As he says, it is in these sites of power that nautonomy resides. Any correction of nautonomy must, therefore, assure equal access to all of them.<sup>31</sup> The first site of power is "the body" and refers to the divergent patterns of physical and emotional well-being found in the world today. As he writes, chances of survival as well as prevalence of physical and mental diseases are disproportionately distributed among races, classes, genders and geographic locations. These, in turn, can be attributed to social closures or unfair dominance of one group over the resources available.<sup>32</sup> The second site of power is "welfare" and refers to a public access to education, social security and a range of community services.<sup>33</sup> The third site of power is one of "culture and cultural life" and is concerned with symbolic orders, forms and standards, as well as ritual and aesthetic practices.<sup>34</sup> The fourth site of power is that of "civil society" and applies to the ability of the individuals to pursue their own projects without direct outside interference.<sup>35</sup> The fifth site of power and arguably the most important one, is that of "economy". This, according to Held, comprises of "collective organisation of the production, distribution, exchange and consumption of goods and services". This site includes access, for example, to the means of production and to the produced goods. The economy, Held maintains, "is the site of one of the main sources of stratification and nautonomy: social class".<sup>36</sup> In a revealing section that follows, Held elaborates on the points he feels make capitalism the source of inequality:

[In the past]...the peasant or worker had a significant degree of control over the process of labour and the routines of everyday life. *But with the birth of industrial capitalism this substantial degree of control was lost. Once citizens entered the factory gates, their lives were largely determined by the directives of capital... One of the results of the capitalist form of ownership and control has been the creation of the plethora of forms of inequality, many of which threaten the entrenchment of the principle of autonomy; for they affect the production and distribution of life-chances and participative opportunities. As Dahl succinctly put it, 'ownership and control of economic enterprises... contribute to the creation of great differences among citizens in wealth, income, status, skills, information, control over information and propaganda, access to political leaders... After all due qualifications have been made, differences like these help in turn to generate significant inequalities among citizens in their capacities and opportunities for participating as political equals.'* To the extent that modern capitalist relations produce systematic inequalities in economic and social resource, the structure of autonomy is profoundly affected [emphases added].<sup>37</sup>

Held also feels that the power of the economic actors and the national reliance on the performance of the national economy vis-à-vis international competitors, make the national decision-making biased in favour of business.<sup>38</sup> The last site of power is that of "organised violence" and denotes the need for making sure that the organs of state power are not used to prevent parts of the population from participating in the

political process.<sup>39</sup> Clearly, all of the above have a profound impact on the ability of the people to participate in the political decision-making, but Held's "sites of power" can really be narrowed to a single prevalent one - the more equitable distribution of financial resources as a means towards purchasing the adequate health, welfare, protection, time to participate in the cultural and civil life, and, ultimately, the time and space to participate in the political decision-making. But, how does Held plan to make access to the economic sites of power more equitable?

Before going further, one point needs to be clarified. As has been seen, Held clearly maintains that nautonomy is caused when one group deliberately prevents another group from the enjoyment of opportunities normally found in society.<sup>40</sup> However, Held also clearly feels that capitalism is an economic system particularly akin to inequality. Oppressive groups, in other words, find capitalism most conducive to their anti-social practices. This does not mean that Held wishes to abandon capitalism altogether. In fact, he seems to accept that capitalism is the best economic system available. But, he maintains in line with the general argument of the Cosmopolitans, that capitalism proper contributes to the unequal distribution of resources. The achievement of the principle of autonomy, which is the equal participation in the political decision-making, must happen through the tackling of the problem of material inequality known as nautonomy. Since, however, capitalism contributes to the perpetuation of material inequality, intervention to offset its inegalitarian outcomes is justified.<sup>41</sup> Held's regulatory propositions are twofold. Firstly, there is the issue of the independence of the business sector. Here Held argues that business has disproportionate impact on the governmental decision-making. It, therefore, follows that this should change - presumably through greater governmental regulation and involvement.<sup>42</sup> Changes are also necessary in the

decision-making process of the company itself, where the workers must be given a greater say. Naturally, Held assumes that greater democratisation will result in a new distribution of power between the business sector on the one hand and "the people" on the other hand. Moreover, Held suggests ways in order to make sure that investment acquires "social dimension".<sup>43</sup> These are issues that will be discussed in the subsequent chapters.

Secondly, there is the issue of rectifying the already present discrepancies in the distribution of financial resources. Here Held explores avenues through which access to productive property could be "broadened". Held begins by clearly distinguishing between different types of private property. Turning to Dahl, Held differentiates between the wish "to secure possession of the shirt on...[one's] back... from the right to acquire shares in IBM and therewith the standard rights of ownership that shareholdings legally convey". Held's distinction between the undoubtedly honourable and egalitarian manual toil on the one hand and the seemingly deplorable speculative investments in the market place on the other hand, could at first seem puzzling. After all, share ownership and financial speculation in order to secure the highest possible return on investment or "profit", are quintessentially capitalist activities. The speculator's search for profit ensures investment for companies that are most likely to sell the sort of products that people want. The stock market, in other words, is the mechanism through which the capitalist machine receives the energy to perform; money.

In fact, Held's acceptance of capitalism is only skin-deep. Although he claims to recognise it as a system most conducive to prosperity, Held proceeds to argue in favour of elimination of some of capitalism's most essential features. He writes, "...[a] choice in favour of the standard rights of ownership is a choice against

political equality and a common structure of political action. ...[Without] alterations in the system of private ownership and control, a necessary condition of democracy cannot be met.”<sup>44</sup> In other words, the system of property rights associated with the contemporary market economy is unacceptable if an egalitarian outcome is to be achieved. A preferred solution, Held’s concluding remarks elucidate, is in fact a “co-operative ownership”, such as “market socialism” and “associationalism”.<sup>45</sup>

Of course, nothing in what Held says is illogical or unexpected. An egalitarian society - one without material imbalances that hinder equal expression of political will - is impossible if the market’s independence is to be preserved. As Brian Barry, whom Held quotes as an authority on the subject, writes, democracy is incompatible with “severe forms” of inequality.<sup>46</sup> In fact, as Barry continues, if a true democracy is to be achieved, “less gross cases of inequality” are also unacceptable.<sup>47</sup> In other words, “no” democratic political order can “be regarded as legitimate if it is marked by structured discrepancies with respect to power, opportunities and choices”.<sup>48</sup> Of course, Held maintains that oppressive egalitarianism of the kind seen under the Communists is not what he is arguing for. The application of the Principle of Autonomy, he writes, is solely deliberative. The nature of the decisions taken by this deliberative body is not necessarily a foregone conclusion.<sup>49</sup> The nature of the decisions taken may not be a foregone conclusion, but Held obviously hopes for an outcome similar to the one argued for by Rawls thirty years ago.

As Rawls imagined in his A Theory of Justice, social arrangements should be negotiated behind the veil of ignorance. The actors, not knowing their own particular circumstances, are given an opportunity to decide not on “just” principles of association, but on a framework from within which “just” actions can be evaluated. The actors, Rawls assumed, will decide out of self-interest that a) all social primary

goods, such as liberty, opportunity, income, wealth and the basis of self-respect itself are to be distributed equally, unless b) an unequal distribution of any of these goods is to the advantage of the least favoured. Because the outcome of the experiment is so obviously good, Rawls further maintained, failure to agree on the above principles could only be explained by the unreasonability of the actors themselves.<sup>50</sup> Similarly, Held clearly believes that the actors participating in his thought experiment will agree on an egalitarian arrangement of society, where activities that would result in material and political inequality will be avoided and perhaps prohibited.<sup>51</sup> But, this answer is a red herring. The deliberative body consisting of equal participants that Held envisages will never come about without the prerequisite and prior equalisation of nautonomic distortions. If anything, therefore, the deliberative body can only act as a rubber stamp on an act of thorough equalisation. But, neither does Held reveal what will happen if the people in his thought experiment decide against the sort of egalitarian structure he envisages. Since, as he believes, the egalitarian structure is so unequivocally good, could the actors be forced to comply with it? And if so, what is the fallback position? Is it Rousseau's "general will" or is it Stalin's "gulag"?

To summarise, Held writes with the intention of rectifying what he believes is the inequality of access to political decision-making. As he writes, such inequality is easily translated into material inequality, because the dominant political group conspires to keep others out. What is Held's standard for proving that a) unequal access to the decision-making exists and that b) some groups are effectively prevented from achieving the normal level of success? Held clearly see equality of outcome as such an indicator. How, then, is the inequality of access resulting in the inequality of outcome to be rectified? This, he writes, can only be solved if all groups

start from the same material base; in other words, when their nautonomic discrepancies have been tackled.

Like any other philosophical argument, Held's argument, too, rests on a set of assumptions. On the primary level there is Held's assumption that "inequality is bad in and of itself". From there follows another assumption; that "we ought to do something about it". On the secondary level Held clearly assumes a "causal relationship" between the lack of participation of group A in the political process and its substandard performance. Conversely, Held assumes that superior access to the political decision-making by group B will result in its over-performance, or excessive power and riches. This set of assumptions results in the further, tertiary, level of assumptions. Firstly, Held assumes that, had the access to the decision-making been equal, "all definable groups would perform the same", or that all groups are equally able to take the opportunities presented in the system. Secondly, he assumes that the process is that of a zero-sum game. In other words, the superior performance of group B can only be achieved at the cost incurred by group A. Since, however, the superior performance of group B can only be attributed to its superior and, importantly, "exclusionary access" to the decision-making, the discrepancy in performance is "unjust". It, therefore, follows that the rectification of the discrepancies thus produced is itself "just". From here it follows that the introduction of the Principle will be both empowering as well as restrictive; increasing the access of the "previously disadvantaged" and restricting the access of the "previously privileged" will, therefore, both accompany the actualisation of the Principle of Autonomy. Held, like Giddens, further assumes that "life chances" are created by the "society" as opposed to the efforts of autonomous individuals.<sup>52</sup> Assuming, in other

words, that the social pie comes with no "entitlements attached", to borrow Nozick's phrase, Held believes that equal scope of "life chances" can in fact be achieved.<sup>53</sup>

Lastly, one more point needs to be clarified. Cosmopolitans in general and Held in particular are, of course, interested in the furthering of individual rights. Crucially, however, the Cosmopolitans are forced to depart from having the individual as a point of reference. Clearly, Cosmopolitans would be foolish to assert that all individuals are, in fact, equal in their ability to succeed. Consequently, Held and others adopt the concept of "a group" to make their case for increased democratic participation. To put it differently, there is inequality in the world. There is also poverty. To say that person A is poor is meaningless, for such a person might have ended up in that position because of a number of objective circumstances, including his own laziness. The same cannot, however, be said of a specific group. None, at least in the Cosmopolitan framework of mind, would dare to assert that the poor in general are poor, because they are lazy. A group, consequently, might sound a terribly amorphous concept, but in the hands of a person who is convinced that all groups are equally able to benefit from the opportunities present in the society, it is a powerful force. It is, therefore, out of their conviction that all groups are equally able to succeed that the Cosmopolitans, seeing that there really is no such equality, extrapolate their arguments to the level of a group. Such a group can be just about anything in nature, so long, of course, as it under-performs. Only thus are the Cosmopolitans enabled to see modern society in terms of a struggle of the less affluent group against the more affluent group, white group against the black group, male group against the female group and heterosexual group against the homosexual group. Only thus can the Cosmopolitans argue that they have the ammunition to



prove that the world is in need of greater equality, an aim that Held finds “inseparable from a tough conception of distributive justice...”<sup>54</sup>

The validity of Held's views will be looked at in the succeeding chapters. But, what about their influence? Scholars disagree as to the impact of intellectual debate on the political spectrum.<sup>55</sup> But, politicians often invoke the views of intellectuals in order to support their views. Even the Nazis, who prided themselves on their anti-intellectualism, sought to justify their policies by intellectualising them. Thus, be it by guiding it, or justifying it, intellectuals are indispensable to the growth of any movement. In Britain the language of social justice, fairness, equality of life chances, social inclusion and exclusion, and fulfilment of the fullest potential of every individual has already found its way into the language and political programme of the British Prime Minister Tony Blair. During his speech at the 2000 Labour Party conference in Brighton, Blair stated,

[We] ...know the danger that in a changing world new forms of inequality and *social exclusion* are created... Our destination [is] a Britain where, in a world of change, everyone not just a few gets the chance to succeed... [We] want to reach our journey's end - that strong, *fair* and prosperous Britain for *all*...

These are our second-term plans. ...*A cradle-to-grave poverty strategy.* A plan to harness new technology *to spread prosperity to all.* ...[Our] enduring mission [is] *to offer everyone, not just the privileged few, the chance to succeed.* ...To succeed as an economy we *develop the talents of all.* ...*To be a fair society, we give opportunity to all.*

[This] ...party that believes passionately in a Britain where *everyone not just a few get a chance to succeed...* We are in a fight and it's a fight I relish. ...*A fight for fairness... A fight for a new vision in which the old conflict between prosperity and social justice is finally banished to the history books in which it belongs* [all emphases added].<sup>56</sup>

But, how is New Labour to achieve these goals? How is a just and fair society, where all will have the opportunity to fulfil their potential, to be created? Held, a scholar close to the Labour government, has come up with a plan. Of course, this does not mean that anyone will take it seriously. But, as is the case with many ideas, no matter how obscure at first, Held's proposal might not stay what it is at present - simply a very interesting intellectual exercise. With time, his works and the works of others like him, could easily become guides and justifications for future policy-makers. It is for this reason that the rest of this thesis will be devoted to exploring it and refuting it. Of course, there is always a risk that Held's work and its refutation will not make any impact at all. But, that is a risk that has to be taken. In this context, the intellectual battles between Friedrich von Hayek and John Maynard Keynes may be recalled. In 1931, Keynes produced his Treatise on Money. Hayek slaved in order to produce a refutation that proved worthless, because Keynes announced that "he had changed his mind and no longer believed what he had said".<sup>57</sup> Then, when The General Theory of Employment, Interest and Money came out, Hayek refused to challenge it, for fear that Keynes would change his mind again. Keynes did not

change his mind and this latter work became a bible of the planners for half of the last century. Mistaken ideas need to be refuted, or they win by default.

## II. Inequality: How True Is It?

*The rise of inequality, especially in the Anglo-Saxon world, has become an obsession of policy makers. In fact, it is less steep and probably less permanent than they imagine, and is overshadowed by a remarkable reduction of world inequality.<sup>58</sup>*

*- Paul Ormerod*

Clearly, Held's main worry is that capitalism encourages material inequality, which then results in political inequality. Held's assumptions and the moral as well as practical outcomes of the type of policies he hopes to institute will be looked at in the next chapter. This chapter will only look at inequality as an empirical phenomenon. As Paul Ormerod maintains, when looking at inequality it is important to depart from a "snapshot" perspective. Thus, it is always possible to look at inequality at any given time and be horrified by its extent. However, social mobility associated with capitalism also needs to be considered. There an altogether different picture emerges, for unlike in the feudal or socialist societies, prosperity is by no means a preserve of a particular class of people. In fact, most people in capitalist societies spend their lives moving across different income groups with ease. One study, for example, has shown that four-fifths of the people who were in the bottom 20% of the US income earners in 1979 were no longer there in 1988. By 1988, more had reached the top bracket than stayed at the bottom.<sup>59</sup> Similarly, a Michigan University study of social mobility found that less than half of the families the researchers followed between

1971 and 1978 stayed in the same quintile of income distribution during that period.<sup>60</sup> Thus, it seems, that the notorious top 20% and the bottom 20% of the populace really represent a constantly changing groups of individuals.

One of the reasons why domestic inequality is constantly overemphasised and mobility underemphasized is labelling. The definition of what it means to be "poor" is constantly changing - reflecting the progress that capitalist societies make. Thus, poverty in the West, unlike poverty in the Third World, seldom means poverty in absolute terms. Rather, it is relative, signifying degrees of disparity between groups irrespective of how high the standard of living of the "poor" may be. The 1990 census in the USA, for example, found that over half of the people defined as "poor" had a car, almost half had air-conditioning and twenty thousand poor families owned a Jacuzzi or a heated swimming pool.<sup>61</sup> Labelling of the "rich" is also problematic. For example, in 1992, a household could qualify for a place in the top 20% with about \$58 000. In order to gain a place in the top 5%, a household needed an income of about \$100 000. But, the statistics seldom qualify how many people there are in the household. It is, therefore, perfectly possible to have a five, six or even seven member household share an income of \$58 000 and still qualify as "rich". Similarly, a household with an income of \$100 000 may belong to the top 5% bracket, but with two children at college, a mortgage to pay, taxes and insurance to take care of, that sum might not be enough to stay above water.<sup>62</sup>

A similar problem also presents itself when talking about absolute poverty. The concept that the poor get poorer and the rich get richer goes back to the Reagan years. Yet, these statistics continuously underemphasize the true disposition of the poor. The 1990 census, for example, ignored the \$150 billion in annual transfer payments to the lowest income earners in the USA. This comes to over \$11 000 per

family per year.<sup>63</sup> Another way to overemphasise the gap between the rich and the poor is to ignore particulars of often widely diverging cases. For example, some American activists have set themselves on determining the extent of “hunger” in the USA. One such study has done so by considering how many people in the USA are eligible for food stamps and then subtracted from this number the actual number receiving food stamps. The outcome was a study claiming that millions of Americans were “hungry”. A closer examination shows, however, that some of the “hungriest” counties happened to be farming communities that grew their own food and had, consequently, no need for food stamps.<sup>64</sup> Another such example concerns the divide between incomes of people by age. As Sowell points out, there are those who see any sign of disparity in earnings as a sign of class divide, ignoring the fact that people belong to different income brackets at different times of their lives. Middle-aged people, for example, earn more than young adults do. Thus, in 1991, people between the ages of 45 and 54 earned 47% more than people between the ages of 25 and 34. There are those who see this as sinister forces at work. A more likely scenario is one where middle-aged people capitalise on their superior experience and knowledge to earn higher salaries.<sup>65</sup> The favourite way of accentuating the rich-poor problem, however, is to look the other way when a contradictory piece of evidence appears. It is, thus, a little known that the U.S. Department of Agriculture and the Center for Disease Control study that examined people from different social strata found “no evidence of malnutrition among people with poverty-level incomes, nor even any significant difference in the intake of vitamins, minerals, and other nutrients... The only exception was that lower-income women were slightly more likely to be obese [i.e.: the opposite of starvation]”.<sup>66</sup>

The complexities involved in measuring inequality are also present in the most trusted and most widely known measure of inequality in the world, the so-called "Gini Coefficient". But, as will be seen, a careful analysis of what Gini actually shows paints a very different picture from what is normally assumed. The Gini is used by the World Bank to determine the levels of inequality across the world. Its value can rest anywhere between 0 and 100, with the higher number indicating a greater degree of inequality. The Gini value in a country with complete equality of possessions, therefore, would be 0. Conversely, in a country where one person owned everything, Gini value would be 100. This does not mean, of course, that the higher value must inevitably mean greater hardship on the part of the poor. Because Gini measures degree of inequality solely between different groups in different countries and irrespective of the rest of the world, it is often the case that the poor in a rich but unequal country are, in absolute terms, significantly richer than the poor in egalitarian but poor countries. Bearing that in mind, in 1996 the World Bank determined the maximum Gini Coefficient level at 63 and minimum level at 18. According to the Bank, the greatest differences in wealth were to be found in Sub-Saharan Africa and Latin America. The Gini value there was, on average, in the upper 40's. The OECD countries, on the other hand, were much more egalitarian with Gini around 30. In Britain, Gini is estimated to be in the mid-30's, while in the USA in the low to mid 40's. France, which has been historically disdainful of Anglo-Saxon version of "rampant" capitalism, has Gini coefficient higher than that of the UK. Moreover, the French Gini varies greatly from one province to another. Per capita income in Nord-Pas-de-Calais is 40% lower than that in Ile-de-France and so on. Overall, the data seem to suggest that inequality in developed countries is smaller than that in under-developed nations.<sup>67</sup> This supports the belief that capitalism does,

in fact, encourage greater dispersion of wealth. But, it must be pointed out that at least some of that greater equality is created by the multibillion-dollar transfers between different parts of the population that most Western countries engage in.

Clearly, domestic economic inequality in the West is profoundly exaggerated. But, so are the doomsday scenarios concerning inequality in the rest of the world. Williamson's research for example, points to a significant correlation between economic interconnectedness and convergence in standards of living during the period between 1870 and 1913. As he also shows, the period of "de-globalisation" that followed the beginning of the WWI brought about "divergence in living standards". Similarly, greater economic interconnectedness between nations in the second half of the 20<sup>th</sup> century "again coincides with a period of convergence [in the standards of living]".<sup>68</sup> This convergence in living standards, Ormerod argues, must be ascribed to the economic development of Asia and the effect this development had on the aggregate levels of inequality around the world. He writes, "The economic success of East Asia... has liberated millions of people from lives of unremitting drudgery and toil, and has sharply reduced world income inequality".<sup>69</sup> Maddison, who carried out a thorough research of national incomes around the world, observed some clear trends in world economy as well.<sup>70</sup> According to his research, the end of the 20<sup>th</sup> century painted a very different picture from what preceded it. With the exception of a small ruling class, in the early 19<sup>th</sup> century there was, so to speak, "equality of misery" around the world. The Industrial Revolution, however, saw Western standards of living rise enormously and the rest of the world lag far behind. No wonder, then, that by the middle of the 20<sup>th</sup> century differences in wealth between countries were tremendous. This all began to change with the rise of Japan and the subsequent rise of the Asian Tigers. The Japanese economy grew at an annual rate of

9.8% in the 1960's and 6% in the 1970's. The Asian Tigers grew by 9.3% during the same period. The economy of the entire Southeast Asian region grew by 8% per annum.<sup>71</sup> The economic rise of China, again due to that country's embracing of capitalism and the increased standard of living of her people, contributed much towards the diminishing global economic inequality.<sup>72</sup> Today Chinese real incomes are double of what they were three decades ago. Incomes in South Korea and Taiwan are similar to average European incomes. Of course, the critics point out, the Chinese embracing of capitalism also meant an increase in that country's domestic inequality. This is true, but as the South Korean case suggests, in the long term, the degree of inequality stabilises below the levels experienced during the period of transition to capitalism. In the 1950's, when South Korea was a poor country, there was also a greater degree of equality – equality of misery, so to speak. During the period of tremendous economic growth that South Korea experienced by opening itself to the world, Gini measurement rose to about 40. But, by the mid-1990's, Gini had fallen to the low 30's.

Despite the above improvements, it is remarkable how the issue of "equality" stole the global economic agenda. It seems as though certain scholars see the existing relative inequalities as only issues worth discussing. This they do apart from the self-evident improvements in the absolute standards of living that participation in the global economy brings. The long-term benefit that integration in the market brings seems irrelevant. It is with this steady long-term growth in mind that Ormerod writes,

By far the most important characteristic of capitalist economies, which distinguishes them from all other previously and currently existing societies, is their slow but steady underlying rate of real economic



growth. Before the 19<sup>th</sup> century, increases in living standards of just one percentage point took decades or even centuries to achieve. Since then, per capita growth of around 2 per cent a year has become the norm in the successful market economies. The impact of moving to the path of sustained growth can be clearly illustrated by comparison of per capita incomes in South Korea and an African economy. The Ivory Coast is by no means unsuccessful in African terms, but the transformation of South Korea has been stupendous. Even as late as 1970, the two countries had very similar levels of output per head, with Korea being about one-third higher. But it is now nearly nine times higher – around 1000 per cent.<sup>73</sup>

Similar results can be observed in many other countries. Both Taiwan and China started their separate existences in 1949 with roughly equal standards of living. Under the market system, the Taiwanese economy grew by 8.7% per year leading to a GNP per capita of \$7500 by 1989. The comparable figure for China was approximately \$350. Similarly, in 1960 both North and South Korea had roughly equal levels of GNP per capita. By 1989, the South Korean GNP per capita was \$4550, more than four times that of the North. Moreover, both Taiwan and South Korea have steadily decreased their income inequalities. While Taiwan's top 20% made 15 times the income of the lowest 20% in 1952, this ratio fell to 4,5 times by 1980.<sup>74</sup> Thus, the issue of inequality is indeed much more complex. It is most important to realise that "dispersion" of wealth and "equality" of distribution of wealth are different. Capitalism disperses wealth better than any other economic system, albeit unequally. The fact that the analysts and decision-makers choose to

focus on the latter and ignore the former encourages a feeling of an imminent catastrophe or crisis that needs to be tackled. This image is wrong, but it is not without its own internal reasoning. Only by deliberately encouraging this imaginary sense of oppression and by continuing to stratify the society by exaggerating the numbers of the victimised, can any possible credence be given to the long-discredited socialist policies. Some practical outcomes of socialism will be encountered in the next chapter.

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  - 2 Brandeis, L. Olmstead v. United States, 277 U.S. 438 (1928); See the full text of this ruling at <http://caselaw.lp.findlaw.com/scripts/getcase.pl?court=US&vol=277&invol=438>
  - 3 See Beitz, Ch. "Cosmopolitan Liberalism and the State System" in Brown, Ch. (ed.) Political Restructuring in Europe: Ethical Perspectives, London, Routledge, 1994; Pogge, T. Realizing Rawls, New York, Columbia University Press, 1992
  - 4 Sketching the intellectual trajectory of links between these philosophical trends is torturous. The Progressive Policy Institute in Washington, D.C. was the centre-left think-tank that coined the 'Third Way' phrase and has done much of the policy-oriented work. (See their website at <http://www.ppionline.org>) However, the intellectual inspiration for much of it has come from Anthony Giddens, currently the Director of the London School of Economics. See Giddens, A. The Third Way. Cambridge, Polity, 1998; Third Way and its Critics. Cambridge, Polity, 2000
  - 5 op.cit., Giddens, 2000, book cover.
  - 6 ibid., p. 2
  - 7 ibid., p. 6
  - 8 ibid., p. 33
  - 9 ibid., p. 35-6
  - 10 ibid., p. 126-8
  - 11 ibid., p. 37
  - 12 ibid., p. 83
  - 13 ibid., p. 51
  - 14 ibid., p. 53
  - 15 ibid., p. 89-96
  - 16 ibid., p. 100-2
  - 17 ibid., p. 105
  - 18 ibid., p. 105-6
  - 19 op.cit., Held, 1995, p. 143
  - 20 ibid., pp. 144-5
  - 21 ibid., p. 144
  - 22 ibid., p. 147
  - 23 Kissinger, H. Years of Renewal. New York, Simon & Schuster, 1999, pp. 264, 299, 635-43
  - 24 op.cit., Held, 1995, p. 246
  - 25 ibid., p. 145
  - 26 ibid., p. 156
  - 27 ibid., p. 171
  - 28 ibid., p. 172
  - 29 ibid., p. 171
  - 30 ibid., p. 176
  - 31 ibid., p. 172
  - 32 ibid., pp. 176-8
  - 33 ibid., pp. 178-80
  - 34 ibid., pp. 180-1
  - 35 ibid., pp. 181-2
  - 36 ibid., p. 182
  - 37 ibid., pp. 182-3
  - 38 ibid., p. 183
  - 39 ibid., pp. 183-5
  - 40 ibid., p. 171
  - 41 ibid., pp. 250, 252
  - 42 ibid., pp. 246-7
  - 43 ibid., pp. 260-1

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- 44 *ibid.*, p. 263
- 45 *ibid.*, pp. 263-4
- 46 Barry, B. Theories of Justice, London, Harvester Wheatsheaf, 1989, p. 347
- 47 *ibid.*, p. 347
- 48 *op.cit.*, Held, 1995, p. 169
- 49 *ibid.*, pp. 155-6, 167
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- 52 *ibid.*, p. 171
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- 54 *op.cit.*, Held, 1995, pp. 208, 265
- 55 Barry, N. "Ideas Versus Interests" in Barry, N. (ed.) Hayek's Serfdom Revisited, London, IEA, 1984, p. 64
- 56 Prime Minister's speech to the Labour Party Conference in Brighton on September 26th 2000. See the full text at <http://www.the-times.co.uk/labour/speech3.html>
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- 58 Ormerod, P. "Inequality: The Long View", Prospect Magazine, August/September 2000, p. 42
- 59 *op.cit.*, Sowell, 1995, p. 44
- 60 *ibid.*, p. 44
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- 62 *op.cit.*, Sowell, 1995, p. 51
- 63 *op.cit.*, Rector, 1990, p. A18
- 64 Lochhead, C. "How Hungry? How Many?", Insight, June 27th 1988, pp. 8-9
- 65 *op.cit.*, Sowell, 1995, pp. 48-9
- 66 *ibid.*, p. 46
- 67 *op.cit.*, Ormerod, 2000, p. 43
- 68 Williamson, J. G. "Globalization, Convergence, and History", Journal of Economic History, June 1996, vol. 56, pp. 277-306.
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## Chapter Five

*"When the great world literature of the past – Shakespeare, Schiller, Dickens – inflates and inflates images of evildoers in the blackest shades, it seems somewhat farcical and clumsy to our contemporary perspective. The trouble lies in the way these classic evildoers are pictured. They recognise themselves as evildoers.... And they reason: "I cannot live unless I do evil". ...But no; that's not the way it is! To do evil a human being must first of all believe that he's doing good..."!*

*- Alexander Solzhenitsyn*

Held's proposal is based on a set of assumptions. This chapter will look at some of them. Primarily, it will focus on the "causal relationship" between the lack of participation of a certain group in the political process and its substandard performance. This assumption rests on an expectation that, were access to the decision-making equal, all groups would perform equally well. It then follows that a superior performance of a group B can only be achieved at a cost incurred by a group A. Since the superior performance of a group B can only be attributed to its "exclusionary access" to the political decision-making, the discrepancy in performance is "unjust". Thus, rectification of the discrepancies thus produced is itself "just". In other words, increasing the access of group A and restricting the access of group B to the political process must accompany the actualisation of a "truly" democratic society. This equalisation has to continue until equality of access is achieved; in other words, until all definable groups achieve proportional representation in the political sphere, the seven sites of power and so on. Moreover, in order to prevent the exacerbation of current inequalities as well as the future return

of inequality, capitalism, the system most prone to producing such inequalities must be severely constrained. Besides its thorough regulation, capitalist modes of property relations must also be transformed. After all, Held writes, it is both the oppressive groups and the economic system of exploitation that collude to destroy true democracy.

This chapter will start by looking at two examples of superior group-performance that cannot be attributed to "social closure". Both the Chinese minority in Malaysia and the Jewish minority in the USA are minorities transplanted from very poor environments into totally alien ones. Both have been discriminated against in the political as well as economic spheres and yet succeeded in thoroughly outperforming the dominant group to become affluent and influential. From these facts it will then become possible to conclude that Cosmopolitans in general, and Held in particular, fail to make the causal connection between political and economic exclusion and under-performance. Also, as Held points out, those who participate in quintessentially capitalist activities, such as finance and stock market trading, may appropriate disproportionate financial rewards. This, Held maintains, is unjustifiable. In fact, this distinction between creative, manual labour and speculative, non-manual labour contributed to Nazi's discrimination against the Jews as well as their ultimate annihilation. Equally, Communist extermination of the Kulaks shows the inherent incompatibility of equality and capitalism. Both examples will be considered at length below. As will be shown, it is impossible to wed together the Cosmopolitan ideas of equality with the capitalist practice of profit-making.

Before moving on, a number of preliminary points must be addressed. Firstly, the Cosmopolitan concept of a group needs to be clarified. The definition Held provides, is a very flexible one. It concerns all sorts of social criteria; class, race,

ethnicity, gender and sexual orientation among them. At least as far as the theory goes, focusing on group differences is unfortunate, because the focus of the Cosmopolitan agenda is essentially individualistic. On the other hand, group-focused discussion is unavoidable, because quite evidently not all groups do presently achieve the same results. The definition of a group, to begin with, is not simple. Persons can belong to a number of groups at the same time. It is, for example, possible to be a British citizen, while at the same time being black, a lawyer, a woman and a mother. Also, in expectation of unearned privileges, an ever-increasing number of people claim special or "protected" status on the basis of their belonging to specific and presumably oppressed minority group. As a consequence of this automatic equation of a minority status with an oppressed status and the concomitant gaining of special privileges that flow from it, the system of group identification has been open to abuse. However, for the purposes of this paper, Held's own broad definition of a group will be accepted. Due to the time and space constraints, the thesis will focus on refutation of the Cosmopolitan assumptions with regard to the most potent of all group characteristics; ethnicity and socio-economic status.

Secondly, there is the Cosmopolitan understanding of discrimination. Cosmopolitans believe that groups acquire disproportionate wealth and power through coercive control of resources, such as land, capital, armed force and esoteric knowledge. Of course, in a just society all coercive appropriation of resources is unjust. A question arises out of the automatic link the Cosmopolitans make between superior performance and lack of fairness. Equally troubling is the concept of "esoteric knowledge", which Held leaves undefined. If it means coercive acquisition of information, Held is right. If, on the other hand, "esoteric knowledge" implies voluntary inter-generational or intra-cultural exchange of information, the issue is

more complex. As will be shown, groups may share characteristics that enable them disproportionately to succeed in one or more areas of socio-economic life. If these characteristics are disseminated through such voluntary exchange, should they be considered unjust? Clearly, this point is a non-starter or else all information not readily available to everyone else would have to be considered unjust.

Thirdly, the question of proportionality needs to be considered. Held maintains that he is primarily concerned with the equality of access to decision-making. However, the only way to determine whether there in fact is such equality of access is through equality of outcome. In other words, in the absence of the equality of outcome, meant as an equal or proportional participation of all groups in the process of decision-making, there is a compelling reason to believe that some form of discrimination had to have occurred. Similarly, unless it is possible to prove that all possible participants enjoy equal access to the seven sites of power, the nautonomic distortions can be said to persist. In fact, proportionality is the very measurement Held himself chose. Of course, others too have started by advocating simple equality of opportunity or equal participation in the political decision-making, and ended up advocating equality of outcome or discrimination against one group on behalf of another. In fact, once the point of departure is the premise that all groups can perform the same, equality of outcome is nothing but a logical extrapolation of the equality of opportunity.

In a logical sequence, 1) All groups have a potential to perform the same. 2) Given equal opportunity, all groups will perform the same and, 3) consequently, all groups will end up being proportionately represented in all aspect of socio-economic life. 4) If group A is not proportionately represented in certain aspect of socio-economic life and group B is over-represented in the same, group A is being



discriminated against by group B. 5) This is unjust. 6) Group A must, therefore, be promoted until it achieves proportionate success and 7) group B must be prevented from enjoying disproportionately high success. Should this sequence seem improbable, the thesis will show how similar propositions provided justification for the atrocities committed in both Nazi Germany and the Soviet Union. Moreover, as the rest of this thesis will show, the above egalitarian assumptions provide justification for instances of discrimination against over-performing groups in the world today. In reality, groups perform differently not just when they have an equal starting line. In fact, there are minority groups, which outperformed the majority in the face of vehement discrimination.

### **I. Disproportional Success-rates among Groups**

*To pursue the concept of racial entitlement even for the most admirable and benign purposes is to reinforce and preserve for future mischief the way of thinking that produced race slavery, race privilege and race hatred.<sup>2</sup>*

- Antonin Scalia

One of the most striking examples of a successful ethnic group is that of the Chinese minority in Malaysia. Contrary to Held's expectations, the Chinese success cannot be attributed to the Chinese oppression of anyone else. In fact, the Chinese have succeeded in the face of outright discrimination. In order to appreciate the outstanding nature of the Chinese experience, it is necessary briefly to look at the history of the Chinese immigrants. The British imported Chinese workers to Malaysia at the turn of the 19<sup>th</sup> century, because they were willing to work for less than the indigenous population.<sup>3</sup>

The sanitary conditions aboard the ships that brought them to Malaysia were so appalling that they were called "floating hells". In fact, large numbers of the Chinese died in transit. Most of the labourers who made it to Malaysia were poor, unskilled, and illiterate. Consequently, they were employed in the most strenuous, dangerous and dirty jobs – most of which ethnic Malays would not do.<sup>4</sup> Moreover, the British colonial administration subjected the Chinese to severe discrimination, by systematically excluding them from participation in political and economic life.<sup>5</sup> Government primary schools, for example, were free for Malay children. The Chinese, however, were required to pay, which most of them could not do. Consequently, the Chinese established their own schools. Most of these were "dirty, ill-ventilated, and ill-lighted basements, out-houses, or attics... [where] sanitation was non-existent...[and] skin diseases...common."<sup>6</sup> After Malaysia became independent, anti-Chinese discrimination increased. The Malay constitution mandated preferential treatment of the Malays in "civil service hiring, granting licenses to private businesses, admission to universities, and land ownership".<sup>7</sup> The Malay government discriminated against the Chinese in the private sector as well, awarding the government contracts and credit to Malays only. Moreover, the Malay government limited Chinese competition in certain economic activities and forced the Chinese businesses to adopt racial quotas in hiring.<sup>8</sup>

Yet, despite all this blatant discrimination, the Chinese succeeded spectacularly. In 1911, over 40% of the Chinese immigrants were employed in the mining sector and an additional 11% in the agricultural sector. By 1931, only 11% of the Chinese remained in the above two sectors. The rest moved on to dominate the Malay retail industry, with ownership of 85% of all retail outlets. Conversely, by 1970 the Malays' role in manufacturing declined to 4%. The rest was owned by Chinese and Indian

Malaysians as well as, to a much lesser extent, foreigners. Equally revealing was the way the Chinese overcame pro-Malay affirmative action at the University of Malaysia. During the 1960's, for example, they have earned 22 times as many Bachelor of Science and 102 times as many Bachelor of Engineering degrees as the Malays.<sup>9</sup> Today the situation is different. Following the 1969 anti-Chinese riots, which the government saw as "justified" precisely because of the massive Chinese overrepresentation in the economy and professions, the Malays introduced a new and much more discriminatory set of policies. This new approach, the government freely admitted, aimed at the achievement of a better "racial balance" in the country's social and economic life. The practical implication of this policy was a government-mandated set of rigid racial quotas. By 1980 the pro-Malay affirmative action resulted in the proportion of the Chinese students at universities being reduced to less than their proportion in the country's population.<sup>10</sup>

Though this example should be enough to shake the Cosmopolitan assumptions, it is important to notice that the Chinese-Malay discrepancy cannot be explained by seeking refuge in "local peculiarities". In fact, the Chinese perform disproportionately well wherever they live. In the Philippines, where Chinese account for less than 1% of the population, they own 75% of the retailing businesses. In Indonesia, where the Chinese account for less than 3% of the population, they control 70% of the country's private domestic capital. They also run 75% of Indonesia's 200 largest businesses. In Thailand, the Chinese minority owns over 70% of all retailing outlets. Truly astonishing is the fact that in all three cases the Chinese were, and still are, subjected to varying degrees of discrimination. In Indonesia, the Chinese suffer from legislated discrimination and mob violence, while in the Philippines they are, in

addition, subjected to periodic mob violence. Similarly, in Thailand the Chinese have been faced with pro-Thai affirmative action since the 1930s.<sup>11</sup>

In fact, the entire Chinese experience flies straight in the face of the Cosmopolitan argument. The Chinese minorities, wherever they live, were, at the time of their arrival, poorer and less educated than the majority population. They were subjected to discrimination and, often, violence. They could, and did, overcome all of these problems. Just about the only "problem" the Chinese could not overcome, was their ability to provide better, quicker and cheaper service than the groups among which they lived and live. That is the secret behind their disproportionate success rate. The Prime Minister of Malaysia, Dr. Mahathir Bin Mohamad, admitted as much when he stated, "Whatever the Malays could do, the Chinese could do better and cheaper".<sup>12</sup> Remarkably, however, his response to Chinese ability and skill was not to try to utilise it. His, in fact, is an administration renowned for its anti-Chinese discriminatory practices. Why? Because like the Cosmopolitans, Dr. Mohamad also believes that all groups perform the same and if they do not, then this must be due to some sort of unfair practices.

Astonishingly, it is this deeply racist and discriminatory approach that has been adopted by the South African government to "solve" South Africa's inequities. On the 11<sup>th</sup> of June 2001 on an E-TV programme entitled "3<sup>rd</sup> Degree" Cyril Ramaphosa, the current head of the Black Empowerment Commission, spoke about the lessons that are to be learned from the Malaysian example. Implying the justice of their cause, Ramaphosa mentioned the outrage of the Malays against the Chinese businesses in the 1960's and the riots that ensued. Then, Ramaphosa spoke glowingly of the New Economic policy adopted by the Malay government and specified that it is a version of this Malaysian experiment that the South African

government should adopt. The Malaysia-styled riots, Ramaphosa said, can only be avoided through governmental intervention aimed at “empowering” the underrepresented peoples in the South African economy. As a result, the South African government introduced a particularly baiting policy of affirmative action, which many young non-black professionals to leave the country. It remains to be seen what else could the government do to ensure that South Africa remains in the economic slump into which she had fallen.

Similar observations can, of course, be made with regard to other minority groups, not least the Jewish immigrants in the USA. Though the Jewish immigration to the USA accelerated in the concluding decades of the 19<sup>th</sup> century, by the start of the WWI, when the immigration began to be restricted, Jews still accounted for only 3% of the American population. The Jewish immigrants arrived in the USA poorer and less literate than their European counterparts. While only 1% of English, 3% of Irish and 5% of German immigrants could not read, 26% of Jewish immigrants were illiterate.<sup>13</sup> Likewise, the Jews were bringing with them, on average, less money than any of the other European immigrants. Not surprisingly, therefore, the Jews ended up living in some extraordinarily appalling conditions. Lower East Side Manhattan, where most of them lived, had a population density of 523 inhabitants per acre. At the time, this was thought “to have been the most densely populated area in the world ...a district of squalor whose stifling air was fouled ...with odour of rotting fish, meat, and vegetables sold on uncovered pushcarts, the immense amount of animal waste from horse-drawn wagons and trucks, dirty streets and the stench of a crowded humanity.”<sup>14</sup>

Yet, by 1919 the Jews were massively over-represented at most of the pre-eminent American colleges, accounting for 20% of students at Brown University, 25%

at the University of Pennsylvania and 40% at Columbia University. Soon, 21.5% of Harvard undergraduates were Jewish.<sup>15</sup> Moreover, the Jews were greatly over-represented amongst the best achieving students there. This prompted Harvard University President Lowell to observe that the Jew “is, on average, a better scholar than the Gentile”. Similarly, Dean Jones of the University of Yale observed that the Jews attained a high success rate “despite the handicap of poverty and the necessity of working their way”.<sup>16</sup> Yet, despite recognising the Jewish intellectual aptitude, the universities introduced discriminatory policies to reduce the numbers of the Jewish students. The logic behind anti-Jewish discrimination was articulated by the Chairman of the Harvard Board of Overseers Committee for investigation of the “principles and methods for the more effective sifting of candidates for admission to the university”. As he stated, “The proportion of Jewish students at the university is greater than any other race. Consequently, the problem of restricting Jews... is the greatest”. “It seems plain”, he continued, “that a college entrance examination would not solve the problem. The Jew is a remarkable student. He is intelligent. The Jewish race as a whole is intelligent. It is astonishing the number of Jews from poor districts who enter Harvard and become remarkable students.”<sup>17</sup>

The Jews, in other words, were appropriating a disproportionate share of the intellectual pie. However, to the egalitarian elite in the USA this was unacceptable. As a result of the anti-Jewish discrimination in admission, New York University and the Columbia University managed to reduce their undergraduate Jewish enrolment from 47,5% and 40% to 25% and 22% respectively. In fact, Columbia’s medical school had done even “better”, reducing the Jewish enrolment from 50% in 1919 to 19% in 1924 and 6% in 1939.<sup>18</sup> [Today Jews are once again being short-changed at

American universities; "this time for being white".<sup>19]</sup> But, even this overt discrimination *failed* to prevent the Jews from succeeding.

According to *Forbes's* annual lists of the richest Americans, over 30% of billionaires are Jewish. That is nearly certainly an underestimate, since Jewish business activity is especially concentrated in real estate, the most difficult area in which to gauge assets and the easiest in which to hide wealth. Half of the USA's richest Wall Street executives are Jewish. The three most prominent Canadian business families are Jewish. In 1984, four times as high a proportion of Jewish American households as non-Hispanic white Gentile American households had an income over \$50,000 a year. Approximately 40% of American Nobel laureates in [the] past several decades have been Jews. A study by the American Jewish Committee found that American Jews with Master of Business Administration (MBA) degrees advance faster in corporate hierarchies and make more money than American Gentiles with MBAs.<sup>20</sup>

Though accounting for no more than about 2% of the US population, 10% of the members of the US Congress are Jewish. Similarly, a few years ago, seven out of eight presidents of the American Ivy League colleges were Jews.<sup>21</sup> Once more, the Jewish success is not a local phenomenon. The Jewish immigrants to Argentina, for example, arrived exceptionally poor. Yet, while constituting only 1% of the population of Argentina today, the Jews account for 20% of the Argentinean university students.<sup>22</sup> Similarly, in mid-19<sup>th</sup> century Melbourne, Jews owned over

50% of all clothing stores. Yet the Jews constituted less than 1% of the Australian population. The Jewish success is not a recent phenomenon either. The Jews in medieval Spain faced intolerance and periodic pogroms. This did not prevent them from occupying high offices in the financial administration of every Castilian king from the late eleventh to the late fourteenth centuries. Similarly, the personal doctor of every Castilian king from Juan I through to Henry IV was a Jew.<sup>23</sup> Today, despite varying degrees of “social closures”, prevailing anti-Semitism among them, Jews continue to outperform all ethnic and racial groups amongst which they live. This astonishing success-rate is the essential meaning behind “The Jewish Problem” and it will be looked at in greater detail below. There are more examples of inequality of achievement, which cannot be explained through social closure. Sowell writes,

In the days of the Ottoman Empire, when non-Moslems were explicitly second-class under the law, there were whole industries and sectors of the economy predominantly owned and operated by Christian minorities, notably Greeks and Armenians... As late as 1965, half the [Nigerian] officers were members of the Ibo tribe – a southern group historically disadvantaged... A 1985 study in the United States showed that the proportion of [historically disadvantaged] Asian American students who scored over 700 on the mathematics portion of the Scholastic Aptitude Test (SAT) was more than double the proportion among whites... As early as 1887, more than twice as many Italian immigrants as Argentines had bank accounts in the Banco de Buenos Aires, even though most Italians arrived destitute in Argentina and began work in the lowest, hardest, and most menial jobs.<sup>24</sup>



Judging by the above evidence it is clear that the Cosmopolitans fail to make a case for the intensification of regulation of society and the market by their inability to defend a causal link between group performance and "social closure". In fact, some groups manage to succeed not only by not discriminating against others, but in the face of discrimination they themselves experience. However, to say this is not enough, for to stop here would be to absolve the Cosmopolitans from sharing much more incriminating assumptions. Clearly, to state empirical evidence of one group outperforming another is not enough to induce the kind of reform, which Cosmopolitans envisage. In fact, such a statement would do the opposite. It would imply the harsh reality of human existence; that predisposition to succeed in specific areas is not equally distributed among different groups, let alone individuals. It would also imply that opposing this reality is nothing but envy, masquerading as a desire for equality. Therefore, acknowledgement of differing performance, if it is to be at the core of the Cosmopolitan proposal for reform, must be buttressed by the implication that superior performance of one group is caused by injustice done to those who do not succeed. Nowhere is this attitude more apparent than in the case of the Nazi Holocaust.

## II. Disproportional Success-rates among Groups and their Consequences

*The Jews ... are a living and most striking evidence of the falsity of that pernicious doctrine of modern times, the natural equality of man. The political equality of a particular race is a matter of municipal arrangement ... But the natural equality of man now in vogue ... is a principle which, if it were possible to act on it, would deteriorate the great races and destroy all the genius of the world.*<sup>25</sup>

- Benjamin Disraeli

What lessons are there to be learned from the Nazi Holocaust? It is the contention of this paper that the true lessons of Nazism are yet to be learned. As Farron shows, people responsible for the atrocities of the 20<sup>th</sup> century were normal people, motivated by assumptions that are readily accepted and followed throughout the world today.<sup>26</sup> These assumptions are that potential to succeed among different groups is distributed equally and that disproportionate success of a particular group must be a result of injustice. Over time it became commonly accepted that the Nazi Holocaust was caused by Hitler's racism. Hitler himself, however, never defined the concept of race and even denied that it existed. As he said, "I know perfectly well, just as well as those know-it-all intellectuals, that in the scientific sense there is no such thing as race".<sup>27</sup> As Haffner writes, it is not clear which nations Hitler thought of as Aryan. "The real racial differences between white, black and yellow-skinned people did not interest Hitler at all... [By] the racial struggle... [Hitler meant] a struggle within the white race, namely between the 'Aryans' and the Jews. In other words, between the Jews and all the rest..."<sup>28</sup>

In fact, on many occasions Hitler expressed his admiration for the Indians, Chinese, Japanese and Arabs, all of whom he preferred to the British.<sup>29</sup> Thus, Hitler exhibited contradictory behaviour. He formed wartime alliances with Asian Japanese and Slavic Slovaks, but called Nordic Swedes and Danes "vermin".<sup>30</sup> He prohibited bombing of Athens, but approved of bombing London, even though the British were by conventionally understood standards much more "Germanic" than the Greeks. He spoke of "warm friendship" with Bulgaria and Yugoslavia, both Slavic, and of "friendly terms" with the Asian Chinese. He believed that Western nations gained a great deal from oriental civilisations, but that Germans were backward and primitive.<sup>31</sup>

The conventional racists in the Nazi party, on the other hand, were Rosenberg and Himmler. Rosenberg wrote a book, in which he claimed to have "expounded" Nordic racial superiority. Hitler, however, described it as "stuff nobody can understand" and "a relapse into medieval notions".<sup>32</sup> Himmler's own contribution to the exposition of Nordic racial superiority was his excavation of ancient German sites. Hitler was not amused. He ranted,

Why do we call the whole world's attention to the fact that we have no past? It isn't enough that the Romans were erecting great buildings when our forefathers were still living in mud huts; now Himmler is starting to dig up these villages and enthusing over every potsherd and stone axe he finds. All we prove is that we were still throwing stone hatchets and crouching around open fires when Greece and Rome had already reached the highest stage of culture. We really should do our

best to keep quiet about this past. The present-day Romans must be having a laugh at these discoveries.<sup>33</sup>

It is in the above passage and many similar ones that Hitler did what most conventional racists would never contemplate – to assert the inferiority of the German race itself. Astonishingly, on a number of occasions Hitler came close to asserting the intellectual superiority of his greatest nemesis; the Jews. He stated, “What they [Jews] possess today, they have mostly gained at the cost of the less astute German nation”.<sup>34</sup> And, “If five thousand Jews were transported to Sweden, within a short time, they would occupy all the leading positions there”.<sup>35</sup> It is in the above passages that Hitler exhibited typically anti-Semitic behaviour. Indeed, it is only in this context that Sartre’s analysis of an anti-Semite makes sense. Sartre wrote, “An anti-Semite readily admits that ...the Jew is intelligent and hardworking ...He will even avow himself to be inferior in these respects. ...There is no example of an anti-Semite claiming individual superiority over Jews. ...For the anti-Semite intelligence is Jewish.... [He says,] “Don't Jews win all the scholarships?””<sup>36</sup>

Recognising the superior abilities of the Jews in Germany is not a difficult task. Records clearly show massive Jewish overrepresentation in high-paying and decidedly intellect-based economic activities, which, in turn, made the Jews disproportionately wealthy. Conversely, there is an utter lack of Jewish presence detected among German manual labour force. Three years prior to Hitler’s assumption of power, for example, Jews constituted only 0.74% of the German population. Yet, Jews accounted for 16.5% of doctors, 22% of lawyers and 50% of theatre directors in Germany. That year Jews wrote 75% of the plays produced in Germany. Similarly, 44% of members of the board running the German Attorney Association were Jews.

Jews also owned 41% of German iron and scrap firms and 57% of other metal businesses, and accounted for 26% of retail sales and 79% of all department-store sales. At different times in the 1920's Jews accounted for 85% of brokers on the Berlin Stock Exchange, owned 93% of the private banks in Berlin and held eight times more executive positions on the boards of non-Jewish banks than was their proportion in the population.<sup>37</sup> A little earlier, in 1907, nine of the thirteen German corporations with share capital over a hundred million marks had a Jewish majority on its board of directors. Four years later, 44% of the richest men in Prussia were Jews. Between 1905-06, 34% of the graduate students in German Philosophy faculties, which included arts and social sciences, were Jews.<sup>38</sup> Despite discrimination that marked the inter-war period, the proportion of Jewish professors at German universities increased several times from what it had been. The most widely accepted estimates suggest that Jews constituted 26% of German professors in physics, 20% in mathematics, 18% in natural sciences besides physics and 18% in medicine. Between 1918 and 1933 nine Germans won Nobel Prizes. Five of them were Jews, Albert Einstein among them.<sup>39</sup> Similarly, during the concluding decades of the 19<sup>th</sup> century, 13 of the 21 newspapers in Berlin were completely, and another four partially, owned by Jews.<sup>40</sup>

The problem at the centre of German and Hitler's anti-Semitism, therefore, was the disproportionate prosperity of the Jewish community. Like many other anti-Semites before him, Hitler himself admitted as much on a number of different occasions. "This legislation is not anti-Jewish, but pro-German... The Jews, who formed less than one percent of the population, tried to monopolise the cultural leadership of the people and flooded the intellectual professions, such as law and medicine", he said.<sup>41</sup> However, a purely factual recognition of Jewish success was of

no use to the Nazis. Complaining about the empirical fact of Jewish riches would merely imply envy. What Hitler had to demonstrate to make their extermination defensible, was that the Jews have committed an act of "injustice". It is this topic of injustice that shall now be looked at. In order to understand it, however, it is important to comprehend Hitler's overall vision of society.

Hitler was no more a psychopathic maniac than Stalin. What the two shared was a revolutionary zeal; a deep devotion to the creation of a new man living in a new society. Theirs' was a search for what Sowell called "a universal solution" to what they perceived to be deeply rooted social problems.<sup>42</sup> As Hitler acknowledged, "We are involved in a conflict in which more than the victory of one country or the other is at stake; it is rather a war between two opposing worlds".<sup>43</sup> As will become clear below, the two opposing worlds that Hitler spoke about were not Nazism and Communism, but Nazism and capitalism. Likewise, Goebbels wrote, "He [Mussolini] is not a revolutionary like the Führer and Stalin. He is so bound to his own Italian people that he lacks the qualities of a worldwide revolutionary and insurrectionist".<sup>44</sup> What, then, was this deep-seeded social problem that Nazism believed it had to eradicate?

Clearly it was the Jews, but not the "sub-human" Jews of the racist babble. What Hitler sought to destroy were Jews as capitalists, as traders, as "shopkeepers", as intellectuals and as bourgeois; in short, Jews as "parasites", who did *not* work for living. How did this come about? Firstly, Hitler never understood the need for an entrepreneurial class. He believed that these were unnecessary and even dangerous to a functioning economy. He wrote, "Our so-called statesmen ... think they can build up the state through economics... [But what is needed] is always the heroic virtues and never the egoism of shopkeepers, since the preservation... of a species

presupposes a spirit of sacrifice".<sup>45</sup> Secondly, like Marx, Hitler distinguished between "creative" manual work of the workers, which was beneficial and desirable, and "parasitic" activity of the businessmen, which was harmful and to be eradicated. He wrote,

Previously I had been unable to recognise with desired clarity the difference between pure capital as the result of productive labour and capital whose existence and essence rests exclusively on speculation.... But now [1919] this was provided by one of the gentlemen lecturing... Gottfried Feder. For the first time in my life I heard a principled discussion of international stock exchange capital and loan capital. Right after... Feder's first lecture, the thought ran through my head that I had now found the way to one of the most essential premises for the foundation of a new party. In my eyes Feder's merit consisted in having established... the speculative... character of stock exchange and loan capital, and in having exposed its eternal... presupposition, which is interest... As I listened to Gottfried Feder's first lecture about the 'Breaking of Interest Slavery', I knew at once that this was a theoretical truth which would inevitably be of immense importance for the future of the German people... *The hardest battle would have to be fought, not against hostile nations, but against international capital* [emphasis added].<sup>46</sup>

Later, during the war, he pontificated, "If in this war everything points to the fact that gold is fighting against work, capitalism against peoples and reaction against the

progress of humanity, then work, the peoples, and progress will be victorious".<sup>47</sup> Pulzer agrees that this deep-felt hatred of capitalism was at the heart of Hitler's revolutionary socio-economic thinking. To Hitler, anti-Semitism was anti-capitalism. It distinguished between two kinds of economic activity. One was creative, *schaffendes*, and the other grasping, *raffendes*. The former was one that a farmer engaged in, while the latter was the domain of bankers, brokers and middlemen. As Pulzer continues, "it would be difficult to find the anti-Semitic program which did not contain items for the protection of "honest" property and the control and taxation, if not the abolition of the stock exchange".<sup>48</sup>

There seems little point debating whether Hitler hated bourgeois capitalism because it was in the Jewish hands, or whether he hated Jews because they were capitalists. In Hitler's mind, the Jews and the capital were inseparable. Should the link between anti-capitalism and anti-Semitism seem tenuous, it must be remembered that Hitler, being the leader of a National *Socialist* German *Worker's* Party, saw the link himself and repeatedly pointed it out. He said,

I am not only the conqueror, but also the executor of Marxism... I had only to develop logically what Social Democracy repeatedly failed in because of its attempt to realise its evolution within the framework of democracy. National Socialism is what Marxism might have been if it could have broken its absurd and artificial ties with democratic order.<sup>49</sup>

Hitler equated socialism and anti-Semitism repeatedly. For instance, he said, "If we are socialists, then we must definitely be anti-Semites – and the opposite, in that case,



is Materialism and Mammonism, which we seek to oppose". He then added, "How, as a socialist, can you not be an anti-Semite?"<sup>50</sup> Later he said, "Socialism ...is entirely alien to the Jew. The Jew will always be the born champion of private capital".<sup>51</sup> Ironically, Karl Marx, a Jew, might have influenced Hitler's thinking on this subject. After all, it was Marx, who wrote,

What is the Jew's foundation in our world? Material necessity, private advantage. What is the object of the Jew's worship in this world? Usury. What is his worldly god? Money. ... The Jew ...decides the fate of Europe. ...Money is the zealous one God of Israel, beside which no other god may stand. ...The Bill of Exchange is the Jew's real God.<sup>52</sup>

Hitler acknowledged his intellectual debt to Marx by saying that the whole of National Socialism was based on Marx.<sup>53</sup> Thirdly, Hitler admired heroism and self-sacrifice. Thus Hitler said, "If you preach private gain, all the egoists will join you... but if you demand sacrifice and courage... then that part of the people that calls these virtues its own will join your ranks".<sup>54</sup> Fourthly, Hitler believed that "virtues" of heroism and self-sacrifice were most developed in an Aryan and least developed among the Jews. He wrote,

The greater the readiness to subordinate purely personal interests, the higher the ability to establish comprehensive communities. This self-sacrificing will to give one's personal labour and if necessary one's life for others is most strongly developed in the Aryan. The Aryan is

not greatest in his mental power as such, but in the extent of his willingness to put all his abilities in the service of the community... He willingly subordinates his own ego to the... community and, if necessary, even sacrifices it. Not in his intellectual gifts lies the source of the Aryan's capacity for creating and building civilisation. If he had this alone he could only act destructively, in no case could he organise; for the innermost essence of all organisation requires that the individual renounce his... interests... in favour of the larger group... Every worker, every peasant, every official, etc. who works without ever being able to achieve happiness or prosperity for himself represents this lofty idea.<sup>55</sup>

Fifthly, Hitler believed that the people guilty of the bourgeois individualism and intellectualism, not only useless but dangerous to a healthy society, were, by virtue of their overrepresentation in almost all non-manual economic activities, the business-like Jews. "The Aryan regards work as the foundation for the maintenance of the community", he said, but the "Jew regards work as the means to the exploitation of other peoples. The Jew never works as a productive creator... He works unproductively, using and enjoying other people's work."<sup>56</sup> Similarly, "the Jew will always be the born champion of private capital in its worst form, that of unchecked exploitation".<sup>57</sup> Then he warned, "The Jewish race will have to adapt itself to productive work as other nations do, or sooner or later it will succumb to a crisis of an inconceivable magnitude".<sup>58</sup>

As the above selection of his statements shows, it was Hitler's deep conviction that the greatest crime the Jews have committed was their association

with socio-economic activities devoid of manual labour and their “parasitic” profiteering from it. This, then, was the source of “injustice” committed by the Jews and, consequently, Hitler’s “justification” for their extermination. Thus, after the Nazi take-over of Austria, it became a national pastime to make the Jews work “creatively”. Some were forced to use small brushes and water mixed with acid to wash streets and sidewalks of Vienna.<sup>59</sup> Another story tells of SA men, who “dragged an elderly Jewish worker and his wife through the applauding crowd... “Work for the Jews. At last, work for the Jews,” howled the crowd. “We thank our Führer, he has made work for the Jews!”<sup>60</sup> After a short while, however, this humiliation was no longer enough and the time had come to implement “The Final Solution to the Jewish Problem”. As they streamed to Auschwitz, the last thing the Jewish victims saw of the outside world was the sign in the middle of the iron gates of the lager, stating, “Arbeit Macht Frei” [Work Makes You Free]. It is important to recognise that this grisly motto only makes sense with this particular explanation of the Holocaust.

Hitler’s hate for the Jews, therefore, had little to do with the conventionally understood concept of race and racism. He acknowledged both business acumen and intellectual superiority of the Jews. On the other hand, he criticised Germans for their lack of historical achievement and had little regard for German intellect. He did all this without in any way compromising the theoretical coherence of his beliefs, precisely because intellect-based entrepreneurship had no place in his vision of an ideal society. Thus, Hitler’s conception of a society was one where there was no place for Jews as a largely intellectual, non-manual and consequently *parasitic* or profiteering class. The destruction of the Jews must, therefore, be attributed to their superior socio-economic performance and their thorough utilisation of the capitalist

economic system. In the final analysis, it was precisely the Jewish success in wealth-creation that brought about their ruin.

### III. Incompatibility of Egalitarianism and Economic Freedom

*We are engaged in exterminating the bourgeoisie as a class. You need not prove that this or that man acted against the interests of Soviet power. The first thing you have to ask an arrested person is: To what class does he belong, where does he come from, what kind of education did he have, what is his occupation? These questions are to decide the fate of the accused. That is the quintessence of the Red Terror.*<sup>61</sup>

- M. Latsis

The massacre of the Soviet Kulaks is yet another example of a group that was eliminated because of a belief that what they had was unjustly acquired. This example will be looked at only briefly, because, unlike the case of the Jews in Germany, there are no competing explanations to disprove. The causes of the destruction of the Kulaks should be uncontested and the reasons for the lack of knowledge regarding these causes can only be attributed to the secrecy of the Soviet state and the bias of a sympathetic academia. In some ways, the Kulaks are a more illuminating example than the Jews. Unlike the Jews, the Kulaks were defined by economic criteria and not ethnicity. Like the people who exterminated them, they were Russians, Ukrainians, Kazakhs and so on. But, like the Jews, the Kulaks were destroyed by a web of egalitarian assumptions and revolutionary justifications. The revolutionary justice in the case of Marxism was to put into practice Lenin's motto "He who does not work, neither shall he eat".<sup>62</sup> Like Hitler, Lenin distinguished between "creative" and "parasitic" labour. The basic premise of

Marx's teachings was that labour and material are the source of all value. Consequently, surplus value or profit that the capitalists derived from the part of the value of the labour of their employees that they did not return to them in wages was unjustified.<sup>63</sup> As in Nazi Germany, profit-making was seen as parasitic and its eradication thus *ipso facto* justified. As has been said, German anti-Semitism was made easier, because the Jews were a distinct ethnic and cultural group. Ethnic distinctiveness, however, is neither sufficient nor necessary for elimination of a particular group. What is crucial is to show that a particular group has achieved its current superior socio-economic status via unjust means.

Following the collapse of the Soviet economy in 1921, the Communists found it necessary to revive it through a partial privatisation called the "New Economic Policy (NEP)". As is often argued by the proponents of the free markets, the Soviet economy was indeed saved and became, despite huge legislative obstacles, relatively prosperous. None other than Khrushchev himself wrote in his memoirs that this was the only period in the history of the Soviet Union when there was no shortage of consumer goods.<sup>64</sup> However, in 1929 Stalin ended this market experiment and nationalised the Soviet economy completely. In accordance with Marxist logic, goods were now sold at government-prescribed prices by people whose salaries depended not on the profit, but on the decision of the government. Needless to say, the Soviet system of distribution collapsed and remained famously inefficient until Communism ended some sixty years later.<sup>65</sup> Stalin's most significant contribution to the nationalisation of the Soviet economy was his collectivisation of agriculture. As required by Marxist dogma, private ownership of the means of production was ended and the peasants were forced to relinquish their land, tools, and stock.<sup>66</sup> Of course, the process of collectivisation did not "require" large-scale extermination of people, yet millions were

murdered. These were the “wealthy” peasants called the “Kulaks”. Unlike the Jews in Germany, the Kulaks were by no means as disproportionately wealthy. Few Kulaks had more than three cows and/or horses and ten hectares of arable land. Ironically, many were poorer than the public officials who came to exterminate them.<sup>67</sup>

What, then, were the reasons for their extermination? The Soviet Council of People’s Commissars defined both their crime and the justification for their extermination. “A Kulak household”, the Council opined, “was one that regularly employed hired labour, or owned means of production [e.g.: a mill or butter-maker] or hired out agricultural machinery or buildings, or engaged in commercial activities or usury or other income not from work”.<sup>68</sup> A Kulak hiring out labour, in other words, was guilty of what the communists called “exploitation”. Due to the seasonal nature of agriculture, however, it used to be a practice among farmers everywhere and at all times to hire help and borrow money at interest in order to harvest the crops and get through the idle months of the year.<sup>69</sup> Nonetheless, Communist dogma defined these activities as unquestionably criminal. As Farron writes,

[It] ...was irrelevant that the *Kulaks* grew five times more grain *per capita* than the average peasant and paid an even higher proportion of taxes, since during the NEP taxes were progressive. All that mattered was that part of their income did not come from their own work, which by definition made them exploiters. As a resolution passed by the Party Congress of 1919 stated, *Kulaks* constitute “the rural bourgeoisie” and so have to be resolutely crushed, as opposed to the “middle” peasantry, which “does not belong to the exploiters, since it does not draw profits from the labour of others”. Ten years later, on December 27, 1929, when

Stalin finally implemented that resolution, he announced that his purpose was “to limit the exploitative tendencies of the *Kulaks* and liquidate the *Kulaks* as a class”.<sup>70</sup>

As with the Jews in Germany, the evidence of Kulaks’ greater ability to succeed was easy to find. During the Russian Revolution poor peasants seized the land of large landowners and rich peasants and divided it up amongst themselves. *In other words, at the beginning of Communism in Russia, all peasants started off from roughly the same starting line.* Between 1922 and 1925, however, the number of Kulaks more than doubled. It continued to grow despite high taxes, which were designed to discourage peasants from entering that category. As Farron writes, “since all peasants started the decade roughly equal, no one, including the Communists, disputed that what distinguished the Kulaks of 1929 from other peasants was that they were more intelligent, diligent and/or thrifty. That is a set of attributes that is frequently fatal to their possessors”.<sup>71</sup>

It is unclear how many Kulaks were exterminated. Stalin, for instance, told Churchill that there were ten million Kulaks. He added that most of them have been “wiped out”.<sup>72</sup> In his memoirs Khrushchev wrote, “I can’t give an exact figure [of people killed and starved] because no one was keeping count. All we knew was that people were dying in enormous numbers”.<sup>73</sup> Scholars seem to agree that the number is closer to eight and certainly more than three and half million deaths.<sup>74</sup> This number, however, included not only the fatally successful farmers, but also their families. Holding families responsible for crimes and imagined crimes committed by a family member was, of course, an integral part of the Soviet system of collective “justice”. Article 58 of the 1935 Criminal Code, for example, criminalised the

members of the families of the “traitors”, even if they did not know anything about the supposed treachery.<sup>75</sup> Another innocent people that suffered were the middle-income peasants, who were either killed or deported, because they “resembled” Kulaks. This happened, because in the USSR, “...anyone who might be guilty of a crime or resembles a guilty person in any way... [was] himself guilty”. Thus, “suspicion of espionage” was a criminal offence, as was having Finnish or German names. Ironically, many Soviet soldiers, who have been decorated for fighting the Finns and the Germans, but carried such names, were also deported to Siberia.<sup>76</sup>

The murder of the Kulaks serves as yet another example of the falsity of the doctrine of equal distribution of the potential to succeed. The Kulaks are one of the rare examples in human history, when, following massive upheavals, the so-much-written-about common starting point among particular peoples has actually been achieved. Within a short period of time there emerged a natural aristocracy of men, who through their talent and diligence accumulated more than the rest had. Marxist doctrine, however, stipulated that the means by which they succeeded were, as in the case of the Jews, “unjust”. As a result, many millions of Kulaks, many of them women and children were, in Stalin’s words, “wiped out”.

#### **IV. Summary: The Lessons of Totalitarianism**

*“...basically National Socialism and Marxism are the same.”<sup>77</sup>*

- Adolph Hitler

As this chapter contended, the Nazi and Communist regimes were based on the same assumptions as the proposals for Cosmopolitan reform. Namely, the above



viewpoints assume that all groups, given roughly the same starting point, will perform similarly and that disproportionate success of one group could only have been achieved through some form of injustice. Of course, the intention here is not to insinuate that the proponents of the Cosmopolitan reform are either Nazis or Communists. In fact, the good intentions contained in such a proposal can readily be acknowledged. But, historical evidence of the practical applications of these assumptions clearly shows how enormously damaging they can be. Hitler and Stalin were both convinced of the justice of their cause, but both stand out as the greatest murderers the world had ever seen. Hitler's name, for example, will always be associated with the murder of the Jews. Their crime was to out-perform others and become disproportionately wealthy by what was considered to be "unjust" means. Some apologists for Jewish success have argued that their historical pre-eminence in commerce and professions must be attributed to them being prevented from participating in other areas of socio-economic life.<sup>78</sup> In fact, the Jews have consistently outperformed all other ethnic groups among whom they have lived. They have done so irrespective of a variety of social closures. Therefore, the cause of the ruin of the European Jewry can only be attributed to their group-characteristic of superior ability to utilise the opportunities at hand and the Nazi perception of such activities as "unjust".

Similarly, the Communists justified their extermination of the Kulaks by the latter's accumulation of wealth by "unjust" means. The Kulak example is illuminating for three reasons. Firstly, it forcefully disproves the racial explanations for genocide that have been used in the past. Clearly, in the case of the Kulaks, ethnic distinctiveness did not contribute to their extermination. Secondly, the rise of the post-1917 Kulaks is a historically unique example of an equivalent starting line

amongst people and the subsequent emergence of a natural aristocracy of ability among them. Thirdly, this example clearly shows that differing aptitude to succeed can manifest itself in a number of different ways. Thus, while the Jews are an example of a gifted endogamous group, the Kulaks are an example of a gifted group with no distinctive ethnicity. What the Jews and the Kulaks shared, was a greater innate propensity to succeed than the groups among whom they lived.

The Jews and the Kulaks, having achieved greater prosperity than the rest, perished. But, the ideas that propelled 20<sup>th</sup> century from one disaster to another are not dead. Today a growing number of disproportionately able groups, be they the Chinese in Malaysia, Indonesia or Thailand, the Indians in East Africa or the whites in the United States of America are being discriminated against because of a familiar set of assumptions; that ability to succeed is distributed equally and that disproportionate success must have been achieved through injustice. But, the universal acceptance of the premises in accordance with which Hitler and Stalin exterminated millions is not the only worry. Equal dangerous is the fact that enough members of academia and intelligentsia espouse these mistaken views and thus give intellectual credibility to those with power to implement them.

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## Chapter Six

*Above this race of men stands an immense and tutelary power, which takes upon itself alone to secure their gratifications and to watch over their fate... It would be like the authority of a parent if, like that authority, its object was to prepare men for manhood; but it seeks, on the contrary, to keep them in perpetual childhood... For their happiness such a government willingly labours, but it chooses to be the sole agent and the only arbiter of that happiness. It provides for their security, foresees and supplies their necessities, facilitates their pleasures, manages their principal concerns, directs their industry, regulates the descent of property, and subdivides their inheritances; what remains, but to spare them all care of thinking and all the trouble of living?'*

- Alexis de Tocqueville

The arguments of the social engineers concerning social exclusion, the concomitant inequality in material well-being and the subsequent inequality in representation are based on the assumption that all groups have a potential to achieve the same level of success. When this does not occur, it is often assumed that malice, or neglect, or both have caused the discrepancies amongst groups. But, this is not the case. Held fails to defend this *automatic* connection between inequality and discrimination. The fact that inequality exists does not in itself mean that discrimination has occurred. Clearly, therefore, where there is no injustice, there should be no compensation. This does not mean, of course, that compensation is not, in certain circumstances, necessary. Indeed, a just society requires that wronged parties must be compensated. But, compensation must not be mechanical. Discrimination must first be clearly

defined and then proven. The fact of inequality existing is, as a proof, simply not good enough.

Out of these egalitarian assumptions arise two important practical implications. Firstly, Cosmopolitans are bound to oppose socio-economic systems that are prone to emphasise rather than diminish the potential differences between peoples. Therefore, the system of the free market, which rewards the participants in it unequally, tends to be ferociously opposed. Secondly, because of these egalitarian assumptions, the Cosmopolitans tend to be drawn to socio-economic systems where it is possible to eliminate whatever existing inequality through social engineering. Of course, this preference is based on the assumption that elimination of inequality is possible through fashioning of humanity in certain, egalitarian image.

The first part of this chapter will show how contemporary social engineering in the USA is based on the assumption that most, if not all, socio-economic differences between groups are based on discrimination. As will be seen, the evidence showing that certain group pathologies, such as child illegitimacy, have really started only with the growth of the welfare state, is conveniently ignored. The second part will then point to some of the most glaring examples of social engineering in practice, while the third part will show how racial gerrymandering is misused by the unscrupulous to enrich themselves. The fourth part will look at the outcomes of social engineering in Britain and the fifth part will look at social engineering in education. The sixth part will then look at the financial cost of social engineering.

## I. Social Engineering: Logical Incoherencies

*Virtually no one seriously questions the principle of equal regard for human beings as human beings. We may all agree on equality before the law and religious people can agree on equality that we are all equal in the sight of God. It is the fatal step from equal regard to equal performance – or presumptively equal performance in the absence of social barriers – that opens the door to disaster.<sup>2</sup>*

*- Thomas Sowell*

The social engineering argument rests on a premise of equal potential of all groups in all areas of socio-economic life. Though there can be no doubt that black Americans have been subjected to discrimination, can the importance of this discrimination be measured by assuming that black Americans would have achieved the same degree of prosperity as other Americans if there had been no discrimination? Is this a sensible approach, bearing in mind the large differences among distinct groups of white Americans and the rise to incomes above the US national average by some non-white groups such as Chinese Americans and Japanese Americans? Sowell concludes that discrimination cannot serve as an “all-purpose” explanation of economic differences. As he writes, were discrimination to account for the failure of a particular group, black Brazilians, who were after the end of slavery not discriminated against, should have come closer to economic parity with the white Brazilians. The opposite is true, for in Brazil the economic differences between blacks and whites are greater than those in the USA.

Similarly, with a brief interruption of six years during the Italian occupation, Ethiopia has been a self-governing territory for a very long time. But, far from being



prosperous, Ethiopia is one of the poorest countries in the world. Then there is Haiti. Haiti was the first predominantly black country in Western Hemisphere to become independent. This was two hundred years ago. According to the logic that discrimination causes economic differences, Haitian blacks should be the most prosperous blacks in the Hemisphere. Conversely, black Americans, who gained political rights only forty years ago, should be the poorest. In fact, the exact opposite is true. Haitians are the poorest blacks in the Western Hemisphere. The Black Americans, despite centuries of discrimination, are the most prosperous, the healthiest and longest living blacks in the world. As Williams writes, "if we totalled the income black Americans earned each year, and thought of ourselves [Williams is black] as a separate nation, we'd be the 14<sup>th</sup> or 15<sup>th</sup> richest nation [in the world]. Even the 34 percent of blacks considered poor are fairly well off by world standards".<sup>3</sup>

There is another reason why this emphasis on discrimination is illogical. As Sowell writes, racial discrimination is seen as a source of statistical inequalities between black and white Americans only. It does not apply to the differences between white and Asian Americans. Thus, when US banks "approve a higher percentage of loans to white applicants than to black applicants, that is automatically called discrimination, but when Asian Americans are approved at a higher rate than whites, it is not. Nor is it called discrimination when Asians do better than whites on SAT scores, unemployment rates or income".<sup>4</sup> Discrimination in education, Sowell continues, is equally unsatisfactory as an explanation for differing academic performance amongst groups. Though it is true that in the Jim Crow South black Americans have received a worse education than their white counterparts, they have received better education than some whites elsewhere in the world. In 1900, for example, 56% of Black Americans over the age of 14 were literate. At the same time,

only 25% of Sicilians, Sardinians, Serbo-Croats, and Romanians were literate. Literacy in the Russian Empire was only 21% and in 1925 only 20% of Albanians knew how to read. As late as 1950, only 15% of the global population was literate.<sup>5</sup> Yet, many of the groups coming from these more “disadvantaged” backgrounds have since achieved higher rates of success than the blacks. Today schools in the Washington D.C. area, which is predominantly populated by black Americans, have some of the highest expenditures per pupil in the USA. But, the students’ scores are among the lowest. Equality of resources spent on education, in other words, is not an immediate guarantee of equality in performance.<sup>6</sup> As Williams writes, black Americans have been all too keen to see discrimination behind socio-economic discrepancies in the USA. Yet, they failed to appreciate that

“[The] greatest educational havoc [is] in the very cities where the mayor is black, the superintendent of schools is black, and most of the teachers and principals are black. When it's noticed that black illegitimacy is 70 percent, and less than 40 percent of black children live in two-parent families, and social pathology reigns supreme, it's not because of personal irresponsibility. Instead, it's racism and the legacy of slavery. Nobody bothers to notice that a century ago, when blacks were much closer to slavery, had fewer civil rights and far fewer opportunities, black illegitimacy and family breakdown was a tiny fraction of today's.<sup>7</sup>

Many commentators on black affairs in the USA, Williams and Sowell among them, agree that one of the biggest problems facing the black community is illegitimacy

and children living in broken families. According to some studies, illegitimacy among the American blacks today may be as high as 70%. Today, only 41% of black males over the age of 15 are married and only 36% of black children live in families with two parents. Of course, some see these statistics as vestiges of slavery.<sup>8</sup> But, the truth is different. In 1940, black illegitimacy was only 19 percent. In the fifty years between 1890 and 1940, blacks enjoyed a marriage rate higher than whites. As late as 1950, 64% of black males over the age of 15 were married. Between 1905 and 1925 in Harlem 85% of black children lived in two-parent families. Clearly, the question is why have the social problems besetting black families not been more prevalent at the time when blacks were closer to slavery. According to Williams, it is probable that the “legacy of slavery arguments are simply covers for another hustle [affirmative action] similar to the \$6 trillion dollar War on Poverty hustle”.<sup>9</sup>

So what was the impact of discrimination on the socio-economic disparities in the USA? According to Sowell, “The fact that discrimination deserves moral condemnation does not automatically make it *causally* crucial. Whether it is or is not in a given time and place is an empirical question, not a foregone conclusion. A confusion of morality with causation may be politically convenient but that does not make the two things one [original emphasis]”.<sup>10</sup> But, it is this causality between discrimination and performance that has been so totally accepted by the promoters of reverse discrimination that challenging it is almost impossible. Today, “racism”, “sexism”, “ageism” and a seemingly inexhaustible plethora of external reasons are constantly being provided to explain discrepancies in performance between supposedly equal groups.

Of course, a simple pointing out of discrepancies between groups is not enough. In order to succeed, a social engineer must assert that the current socio-

economic status of a particular group is directly dependent on one conspiracy or another. It is amazing how many people accept this type of explanation without a single piece of evidence. At the Million-Woman March on Philadelphia, for example, "the first item on the march's twelve-point agenda was... a CIA plot to introduce crack cocaine into the [black] inner cities".<sup>11</sup> Similarly, in 1988, Steve Cokely, a former aide to the Mayor of Chicago, delivered "a series of lectures... in which he said [that the] Jews were a part of an international conspiracy to rule the world". "Jewish doctors", he continued, "inject Black schoolchildren with infectious diseases".<sup>12</sup> As ever, the members of the intelligentsia give intellectual credence to such views. J. R. Feagin, the former President of the American Sociological Association, for example, writes,

A majority of white respondents say... that African Americans... now have equality in life chances with whites. However government statistical data indicate that such views are very much in error. When a Vietnamese family is driven out of its home... by African-American youth, that is white supremacy. When a Korean store owner shoots an African-American teenager in the back of the head, that is white supremacy. When 33% of Latinos agree with the statement, 'Even if given an equal chance [African-Americans] aren't capable of getting ahead' that is white supremacy.<sup>13</sup>

It must be said that the Feagin's statement is not a joke or an exhortation to the public to beware of inflammatory and unsubstantiated statements like that. In fact, Feagin is as serious as anyone who accepts that all groups are equal in potential and

that any discrepancies in equal status must be caused through some form of discrimination. As Sowell writes, “One of the ways in which the dogma of equal performance is a threat to freedom is in its need to find villains and sinister machinations to explain why the real world is so different from the world of its vision... The very thought of condemning the theory... seems unthinkable”.<sup>14</sup>

## II. Social Engineering: Nonsense Upon Stilts

*A whole universe of the mind has already been created to explain inequality... Thus all standards of behaviour and performance are suspect as mere shams designed to ensure the continued advantages of the haves over the have-nots. Even efforts to help the less fortunate to acquire the behavioural prerequisites of productivity are often condemned as cultural imperialism, while the failure of the less fortunate to reap the rewards of productivity is also condemned as the fault of 'society'.*<sup>15</sup>

- Thomas Sowell

The logic of the goal of proportional representation in the workplace has been recently documented by the decision of the US Department of Justice to sue the police departments in Philadelphia for failing to hire enough women. Apparently, the Justice department deemed it discriminatory that female candidates should be required to run 1,5 miles in less than 12 minutes – a physical task required of male officers. The Department defended its accusations of discrimination by claiming that physical fitness “was unrelated to job performance” and demanded “different standards for men and women”.<sup>16</sup> Cognitive skills have been watered down in order to accommodate less-able candidates as well. As Lott writes,

Since testing for cognitive skills like reading comprehension, writing and memory has a 'disparate impact' on certain minority groups, the [US] Justice Department know-it-alls have decided to pressure police departments across the country to emphasise non-cognitive 'skills' like personality traits and personal interests when devising their own entrance exams. The Justice Department has threatened legal action if the police departments don't go along with their 'suggestions'. The obvious purpose of the department's bullying tactics is not only to force police departments to hire by quota but to ensure that the police entrance exams are racially gerrymandered.<sup>17</sup>

Of course, cities with the greatest racial "gerrymandering" saw their crime rates increase 1.9% per year of the policies' enforcement. As ever, it is in the poorest and predominantly black areas that the crime increase was greatest. This should come as no surprise, since it is in these areas that racial quotas have been most vigorously applied.<sup>18</sup>

In 1995, the US Food and Drug Administration advised that "the common requirement for knowledge of rules of grammar" and "ability to spell accurately" should no longer be used, because they may hamper the hiring of minorities and people with disabilities. Interviewers have been told not to judge traits such as "motivation, ambition, maturity, personality and neatness".<sup>19</sup> Also in 1995, the Pentagon determined that "special permission will be required for the promotion of all white men without disabilities" and the US Navy resolved that future navy officers will be hired "in a percentage approximately equal to their racial makeup of

the populace".<sup>20</sup> In its 1995 job announcement, the US Forest Department specified that "only unqualified applicants may apply". It then elaborated that "Only applicants who do not meet [required] standards will be considered". As Larson reported, "in some cases, critical firefighting positions were left vacant or filled with unqualified temporary workers because no women applied for the posts".<sup>21</sup>

Though every federal department has an agency responsible for the enforcement of racial quotas in its own domain, none is more powerful than the US Department of Labor's Office of Federal Contract Compliance Programs (OFCCP). Its most influential tasks are to vet private companies in the application process for federal contracts and to enforce affirmative action among federal contractors. As such, it is a powerful tool of the social engineers for enforcement among 200,000 companies and approximately 25 million employees of what its former director, Shirley Wilcher, called "equality in the workplace". "We see", Wilcher continued, "whether or not minorities or women are underutilized in an organization, based on a very elaborate formula. We look at the availability of our protected groups in the labour force... [and] argue that the... employer really needs to have a goal to achieve parity with the available work force". According to Wilcher, in other words, the government ought to prefer some "protected" groups over others. If the proportional representation of these "protected" groups in the population of the county or the state is out of sync with their representation in the workforce of a particular company, quotas must be imposed to achieve proportionality.

It is mistaken to assume that proportionality applies only to hiring. Financial rewards must too be proportional. Thus, in 1996, the OFCCP reprimanded the University of Cincinnati for paying "too little" to minority and female members of staff. How did the OFCCP arrive at such conclusion? Instead of looking at every case

individually and juxtaposing experience, quality of teaching and other such criteria, the OFCCP created a hypothetical faculty member with an average salary of X. The OFCCP then compared the female and minority faculty members with this hypothetical member and the ones that fell below were immediately assumed to be discriminated against. Because of this ridiculous method of analysis, the University was forced to pay millions of dollars in back payments to the “protected” groups.<sup>22</sup> The irrelevance of merit is something the agency does not even pretend to hide. As the OFCCP itself announced, “No distinction is made between minimum and other qualifications in an evaluation of the total selection process”. And, as its former head Ellen Shong Bergman acknowledged, the OFCCP disciplines businesses, which fail “to select a woman, Black, or Hispanic who is as qualified as the least qualified incumbent, irrespective of superior qualifications of other non-minority applicants”.<sup>23</sup> But, as the case of the City Utilities of Springfield, Missouri, shows, achieving proportionality may not be enough. In that particular case, the OFCCP agent failed to find “racial discrimination” in the hiring practices of the above company. The company has, in fact, fulfilled the local racial quota and its workforce reflected the proportional representation of non-whites in the community. The OFCCP, however, demanded that the company start hiring from the Kansas City area, 170 miles away.<sup>24</sup>

As D’Souza writes, the above cases result from an arbitrary expectation that “in the absence of discrimination, all groups should be represented in the workforce at roughly their proportion in the population”.<sup>25</sup> The legal framework for this expectation has been set by a number of successive rulings of the US Supreme Court. In *International Brotherhood of Teamsters v. United States*, it ruled that “It is ordinarily to be expected that nondiscriminatory hiring practices will in time result in



a work force more or less representative of the racial and ethnic composition of the population in the community from which employees are hired”.<sup>26</sup> Its 1971 ruling in *Griggs v. Duke Power*, the Court specified that “companies are liable for illegal discrimination, regardless of their intentions, if the effect of their hiring and promotion standards that produced such a ‘disparate impact’ could only be justified if the company could prove that those standards bore a ‘demonstrable relationship’ to performance and were required by ‘business necessity’.”<sup>27</sup> But, to demonstrate such a relationship is very difficult. A supermarket, for instance, may require that the applicants for jobs there do not have a criminal record. According to the above ruling, however, the supermarket must prove such a requirement is absolutely necessary. This, the supermarket cannot do, because it is clearly possible for a convict to reform his ways. In the absence of clearly applicable criteria for employment, however, the door is open for abuse. Thus the US government found it possible to sue a number of companies that required, for example, that no applicants have a criminal record on the basis that the blacks were more likely to have one.<sup>28</sup>

In order to avoid this kind of unwanted attention the American companies have systematically caved in to the pressure exercised by the misguided public and the federal government. Northwest Airlines, for example, may have paid as much as \$40 million in order “to end a discrimination suit that was based not on proof of intentional bias but on statistical imbalances in the airline’s work force. Northwest consented to accelerated hiring and promotion of black workers, special scholarships for black mechanics and pilot trainees...” Similarly, over 70% of Fortune 500 companies promised to take-up race-based hiring, whilst only 14% stated that they would stick solely to the merit of the applicants.<sup>29</sup>

That merit does not and will not stand in the way of the social engineers has recently been shown in South Africa, where the government pursues affirmative action policies. According to one government official, "It is imperative to get rid of merit as the overriding principle in the employment..."<sup>30</sup> Such attitudes can only succeed in driving better-educated and more skilled whites overseas. This South Africa can only ill afford.

### III. Social Engineering: Legalised Extortion

*"[Man can live by his own labour, but] it is also true that man may live and satisfy his wants by seizing and consuming the products of the labour of others. ...It follows that men will resort to plunder whenever plunder is easier than work."*<sup>31</sup>

- Frederic Bastiat

The most effective way in which the OFCCP can force businesses to comply with racial quotas is a financial penalty.<sup>32</sup> The case of Carolina Steel in Greensboro, a model company as far as social engineering was concerned, for the number of its black employees was higher than the local quota required, is a telling one. Despite its fulfilment of the quota, the company was found guilty of discrimination. The reason was that the company's location was about a block away from the local unemployment office. As such it was inundated with applications it could not possibly entertain. The OFCCP, therefore, proceeded to judge the company on the basis of minority applicants who were *not* employed. The OFCCP's demand for financial compensation of workers who never worked for the company was so high that, had it been paid, it would have destroyed the company. Under pressure, the

company caved in, offering a settlement. As the CEO of Carolina Steel said, “We don’t think that we were fairly treated under the law, but we settled in order to get them [OFCCP] off our back”.<sup>33</sup>

Another extortion body in the USA is the Equal Employment Opportunity Commission [EEOC]. In 1995 the EEOC descended on Koch Poultry Co. in Chicago for employing “too many” Hispanics and “not enough” Blacks. The company was asked to place an advert in the newspaper asking “for people who might have applied for a job, or if they were thinking about applying, so they might be entitled to a financial settlement”. The EEOC then asked for over \$5 million in order to finance this settlement. This was more than the company was worth. As a consequence, the company went to court and spent \$250,000 defending itself.<sup>34</sup> Similarly, in 1994 the EEOC threatened West Point Market in Akron, Ohio, for refusing to hire Blacks on the basis of their race. No complaints against the company have ever been filed, but this did not prevent the EEOC from demanding 33% quota on Black employees and \$100,000 in compensation money for 24 Black applicants who have not been hired in the past. Rather than facing the court battle, the company agreed to a higher racial quota and offered 24 scholarships of \$1000 each to the turned-down applicants. None of the 24 applicants reapplied.<sup>35</sup> No wonder that the EEOC Accomplishments Report for Fiscal Year 1999 boasted an intake of over \$307 million in compensation payments from private businesses across the USA.<sup>36</sup>

Some people have turn race into profitable business. The exploits of the former Democratic presidential candidate Jesse L. Jackson, for example, have reached such proportions that even the “progressive” Washington Post had enough. Following revelations that Jackson had paid \$40,000 out of the black-empowerment Citizenship Education Fund (CEF) to his mistress and mother of his child, questions

began to be asked about the methods that Jackson used to extort money from his corporate victims. "An examination of the public record and his financial statements shows", the newspaper wrote, "that Jackson has repeatedly inserted himself into corporate controversies and transactions just when the companies are most exposed - and therefore most inclined to be generous to Jackson's organization - such as when they are seeking federal approval for a merger or battling charges of discriminatory hiring practices".

Moreover, Jackson also seems to have pressured companies to award profitable business deals to his close friends. Jackson, who claims to be a "victim of a right-wing conspiracy to discredit him", denied any link between his threats to boycott businesses for apparent discrimination against Blacks and financial rewards to his friends. After these disclosures, however, fewer people are willing to believe him. Gerald Reynolds, a board member of the Center for New Black Leadership, called him a "hustler" and "charlatan" who blackmails white CEOs into submission. There is certainly evidence to support Reynolds's claims. At the time of Viacom's merger with CBS, for example, Jackson protested against the deal. He would change his mind, he claimed, if Viacom sold a part of the company to a minority businessman, Percy Sutton. It so happens that Sutton is Jackson's close friend and acted as finance chairman of the latter's 1988 presidential campaign. Sutton is also the director of the CEF and Jackson owns \$1 million worth of shares in one of Sutton's companies. The Viacom deal came to nothing, but the company did become a supporter of the CEF, contributing \$377,500 in 1999. Jackson also opposed the merger of telecommunications giants SBC and Ameritech, calling it "antithetical to basic democratic values". "However, after SBC and Ameritech contributed \$500,000 to the CEF and agreed to sell 7 percent of the \$3.3 billion cellular telephone business

to a black businessman, Jackson withdrew his opposition and declared the merger to be in the public's interest". The black businessman in question was Chester Davenport, Jackson's close friend and a regular contributor to Rainbow/PUSH, civil rights group that Jackson heads.<sup>37</sup>

#### IV. Social Engineering: Great Britain

*History will see...[Blair's] efforts as a final, futile attempt to save a decaying system. Blair is a modern-day Necker, the minister of Louis XVI, whose reforms predictably failed to rejuvenate the enfeebled carcass of the ancien regime.*<sup>38</sup>

- Stephen Berry

In Britain, as in the USA, social engineering is beginning to be applied in earnest. The recent, largely successful, attempt by the Commission for Racial Equality (CRE) to force the pre-2001 election Members of the British Parliament (MP's) into signing a compact promising not to make race an election issue illustrates this clearly. The MP's were asked to undertake to "represent the interests of all... constituents, regardless of race, sex, colour, religion or any other discriminating factor... [to] reject all forms of racial violence, racial harassment and unlawful racial discrimination... [and not to] stir up racial or religious hatred or lead to prejudice on grounds of race, nationality or religion".<sup>39</sup>

Of course, by insisting on this compact and threatening to publish the names of those MP's who refused to sign it, the CRE achieved the exact opposite to what it intended; it put race at the very centre of the British electoral process. It did so by implying that the British politicians could not be trusted not to play the race card and

by assuming for itself the role of a sole defender of a multi-racial and pseudo-liberal society. , Alarmingly, it tried to silence a totally legitimate debate about the direction the British racial and religious relations should take in the future. That this debate is vital is clear, not least because of the actions taken by the CRE.

As Gove wrote, there is much in CRE's approach to race issues in Britain that is profoundly anti-liberal. The CRE influenced the Race Relations (Amendment) Act 2000 to include the concept of "indirect discrimination which holds public bodies culpable for racism if the ethnic composition of their staff does not match a particular template". To put it differently, non-compliance with certain racial quota is now considered "prima facie evidence of racism".<sup>40</sup> Further, the CRE's hostility towards presumption of innocence was evident in its delight at Article 13 of the Amsterdam Treaty, which reversed the burden of proof in anti-discrimination cases from the plaintiffs to the defendants. This means that "a decision not to employ an individual from an ethnic minority automatically makes... [one] a racist unless... [one] can prove otherwise".<sup>41</sup>

So, in Britain, as in the USA, the existence of ethnic minorities is being used to erode the very same principles that allowed these ethnic minorities to arrive and to flourish here. Regulations are being put in place, which constrain human freedom in order to make group relations better. Mostly, they achieve the opposite. As Faisal Bodi wrote, "Much of the blame [for ethnic tensions] lie with race relations policies that have promoted ethnic insularity at the expense of integration. Money for ethnically exclusive centres and language support projects has poured into [racially tense areas]... It has helped bigots... And it has helped the race sector employees stay at work."<sup>42</sup>

Social engineers are active in other areas as well. The former chief of staff, General Sir Charles Guthrie, for example, has recently attacked “a culture of risk aversion” in Britain. He warned of the possibility of officers being sued “for leading men into action which could lead to death or injury”. In addition, Guthrie attacked “the idea that the military should be compelled to accept disabled recruits”. “We need to guard against such ill-conceived ideas in future”, he said.<sup>43</sup> Guthrie’s statements came not long after the British Ministry of Defence “has announced that the noise of military brass bands, as well as that from gunfire during infantry training exercises, is in violation of occupational-safety regulations safeguarding workers from excessive noise”.<sup>44</sup> Similarly, it has been reported that “Scottish companies were warned... that they could face prosecution if their websites are not accessible to the disabled”.<sup>45</sup> As James Clark sarcastically reported, because of the British Disability Discrimination Act, “police officers with part of a leg missing are likely to be pounding the beat and one-eyed drivers could be at the wheel of pursuit cars”.<sup>46</sup>

Language is yet another area where the social engineers have been active. Stockport College in Manchester, for example, has prohibited its staff and students from using more than forty “offensive” words and phrases. These include “postman”, “chairman” and “history”, which are deemed sexist; “mad”, “manic” and “crazy”, deemed as “demeaning to the mentally impaired”; “slaving over a hot stove”, because it apparently “minimises the horror and oppression of the slave trade” and “normal family” and “ladies and gentlemen”, because of its apparent class implications. According to the college, adherence to this ban will be a precondition of service and admission.<sup>47</sup>

Similarly, a public employment bureau in Staffordshire had recently prohibited an employer from placing a recruitment advertisement that included

words such as “hardworking” and “enthusiastic”. Apparently, such words were “deemed discriminatory”. David Blunkett, the then Education and Employment minister, ordered the policy reversed.<sup>48</sup>

## V. Social Engineering: Education

*The liberal conceives of men as imperfect beings. He regards the problem of social organisation to be as much a negative problem or preventing “bad” people from doing harm as of enabling “good” people to do good; and, of course, “bad” and “good” people may be the same people, depending on who is judging them.*<sup>49</sup>

- Milton Friedman

At universities throughout the USA and in the UK, governmental policies of social engineering are becoming clearly visible. For decades, many American universities admitted candidates on the basis of their Standardised Aptitude Test (SAT) scores. The SAT is taken by high-school graduates hoping to enter a university. Universities, on the other hand, issue their own SAT requirements. Thus, a university with good reputation will have SAT requirements lower than a university with an excellent reputation etc. It happens that in the SAT’s black and Hispanic Americans score, on average, lower than whites do. It is for this reason that admissions to US universities have not been “proportional”. The American social engineers, rather than accepting this diversity in the potential to succeed, have attacked the SAT instead. The 1999 federal proposal entitled “Nondiscrimination in High-Stakes Testing” stated that “the use of any educational test which has significant disparate impact on members of any particular race, national origin, or sex is discriminatory”.<sup>50</sup>



It is important to note here that the US Department of Education, which came up with this proposal, did not question the objectivity of the SAT, for there is no evidence that the test is structured in a way that benefits the politically dominant group. So it happens that both, American Jews and Asians score higher than whites do. Moreover, as the authors of the proposal themselves state, the SAT simply reflects the unequal distribution of particular abilities throughout the US population. It is worth noting that the Jewish and Asian over-performance in these tests is accepted as completely uncontroversial. The black-white discrepancy, however, causes a great deal of debate. It is perhaps tacitly accepted, even by the opponents of the SAT, that it would be factually incorrect as well as politically damaging to accuse the Jews and the Asians of discriminatory behaviour.

The federal attempt to destroy the SAT is only the latest attempt of the social engineers to further their agenda in the educational sphere. Again, the problem rests in the assumption of the social engineers that talent and ability to succeed in whatever activity is equality distributed throughout the social strata. As one Deputy Assistant Education Secretary under the Clinton Administration stated, "Excellence and equity must, as a matter of education policy and legal standards, go hand in hand".<sup>51</sup>

Of course, in real life excellence and equality do not come hand in hand. This is clear from a recent report published by the Center for Equal Opportunity in Washington, D.C. The report has examined the admissions policies at 47 tertiary institutions and was based on a review of applicants' SAT scores and high-school class ranks. The report concluded that "the use of racial and ethnic preferences by college admissions officers was pervasive and national in scope". It further observed that only a handful of the institutions under scrutiny did not use any such

preferences. As the report said, “at least three-fourths of the institutions studied have had a substantial degree of preference in favour of blacks over whites and that about two-fifths of the institutions favoured Hispanic applicants over white ones to a similar extent”. It continued,

[A] black applicant was four times likelier than a white applicant with the same standardized test scores and high-school grades to be admitted to the University of Minnesota at Duluth; eight times likelier to be admitted at the University of North Carolina at Charlotte; 18 times likelier at Longwood College in Virginia; and 57 times likelier at the University of North Carolina at Wilmington. The report also noted that all the above institutions were ranked as competitive by Barron's Profiles of American Colleges, placing them in the middle of the institutions studied in terms of their academic quality. The few institutions that did not use racial or ethnic preferences at all were ones that either accept more than 85 percent of applicants or open their doors to anyone who applies.<sup>52</sup>

As with so many other kinds of obviously discriminatory practices, the system of racial preferences also needs intellectual justification. Thus, Roy Brooks states, “There is nothing intrinsically wrong with using race in lawmaking or policy formulation... [Critics of affirmative action are unable] to distinguish between policies that engender racial exclusion and those that promote racial inclusion”.<sup>53</sup> Similarly, Randall Kennedy asserts, “The color blindness theory... is an incomplete and misleading approach... to the constitutional end of assuring substantive, not

merely procedural, equality". Likewise, Patricia Williams writes, "The rules may be colorblind, but people are not. ...[There may be a necessity for] some measure of enforced equality... [instead of the] blindly formalised constructions of equal opportunity".<sup>54</sup>

Morality aside, the question of practicality must also be addressed. But, it is precisely in the practical sphere that affirmative action *harms* blacks most. The dogma of social engineering demands that universities, especially the best universities, should accept a certain quota of applicants from each definable group. Thus, because of the affirmative action policies, the numbers of black undergraduates has *in toto* increased. But, this increase was not translated into an increase in the number of black graduates. This is so, because a large number of black students were incapable of meeting the high standards of the universities into which they were admitted. A much more sensible approach would be to let the intellectual "market" decide the proper and sustainable place for these students elsewhere in American academia. Black students, in other words, who are presently unable to meet high academic criteria at the best US colleges, could well be able to meet the standards required at less demanding colleges, gaining a degree and gaining a career. A degree from the University of Texas, after all, is infinitely better than no degree from Harvard University.<sup>55</sup>

According to social engineers, everything must be subjected to the goal of reaching equality no matter what the impact on the individuals within society. For example, it is plain that logical extrapolation of the liberal dogma must result in denying the proper place on the educational ladder to individuals with intellectual superiority. Persson Benbow and Stanley give a worrying example. Apparently, a student scoring higher than his classmates on the mathematical portion of the SAT

was denied higher-level tuition in mathematics because it would be “a violation of social justice [of his less-able classmates]”.<sup>56</sup>

Of course, there are two distinct ways of achieving egalitarian goals. The state can clamp down on the overachiever in order to bring him down to the level of others. Or, the state can bring the underachiever up to the standard level. In the educational setting, this means terrific expenditures on “special education” projects and other ways of assuring the progress of mentally retarded and otherwise handicapped students. Such projects pay little or no attention to financial costs, no matter how inconsequential the achievements. No example illustrates this better than the infamous Milwaukee Project.

The project involved forty children born to mentally retarded mothers in impoverished areas of Milwaukee. Twenty of these children were at the age of three months placed under the tutelage of professional educators. The other twenty children were left without tutelage and were to serve as a control group. The first twenty were “didactically stimulated”, initially for seven hours and later for eight hours a day, five days a week. Each child had an individual teacher for at least some of the time and the child-teacher ratio never rose above three to one. As the director of the project stated, the “childhood environments of John Stuart Mill and Sir Francis Galton would seem very deprived by comparison”. According to the media, the project was supposed to have achieved a staggering average IQ gain of 33 points per child. Not reported was the fact that whatever “gain” there was, it quickly dissipated. Thus, at the beginning of their first year at school, the artificially stimulated children got grades indistinguishable from those of the children in the control group. Also, the assessment of their reading ability was the same. At the end of the year, “the average score of the children in the experimental group on standardized tests was in the lower

half of the general population in reading comprehension, and in the lowest third in mathematics". By the time they were ten, "their average reading comprehension was in the lowest 19% of the population and their ability at arithmetic problem solving in the lowest 10%, identical with the control group".<sup>57</sup>

The unambiguousness of the failure of the project to raise the IQ's of the children of retarded mothers permanently was truly astonishing. Even more so was the cost. The initially reported IQ gains of 33 points cost the American taxpayer \$23,000 per IQ point per child. Adjusted for inflation, the cost of the project equalled to 97,000 1999-dollars per reported IQ point per child.<sup>58</sup> Thus, even if the IQ gains were real, which they were not, the environmental avenue would never have been feasible from a financial point of view. In conclusion, it is probably fair to say that there is no known example of this kind of environmental manipulation ever having permanently raised the IQ levels of an individual or a group. Considering the media bias in this matter, it is safe to assume that had such a study existed, the world would have known about it.<sup>59</sup>

The above example lead to another point. This is the relationship between state education and spending. State education has been an indivisible part of the welfare state since its conception. Yet, the assumption that the state is necessary to educate the public is a hoax. In 1930, at the height of the Great Depression and before the birth of the welfare state in the USA, only 3 million Americans could not read. Today, after 40 years of the welfare state and approximately \$6 trillion spent on welfare, 40 million Americans cannot do so.<sup>60</sup> Even accounting for the growth of the American population, this still represents an absolute decline in the proportion of Americans who can read. As ever, it is the least prosperous members of the society who suffer the most. In 1930, 80% of black Americans could read. Today, only 56%

can do so.<sup>61</sup> This slump in people's ability to read is not a fault of uncaring capitalism. It is high taxes that make it impossible for the poor people to opt for private education. The rich, on the other hand, can both subsidise public education and send their own children to private schools. As Beito shows, the welfare state also destroyed, through unfair competition, the communal provision of medical care.<sup>62</sup>

It is a part of the "progressive" dogma that problems in education can only be tackled through increased expenditure. Every time a new statistic emerges showing educational standards falling in public schools, more money is thrown onto the problem. Again, this is exactly the wrong approach. In 1980, the State of New York spent about \$4000 per pupil per annum. At that time, the Scholastic Aptitude Test (SAT) scores of New York pupils was approximately 7 points above national average. In 1995, the spending reached \$9300 per pupil, whilst the scores plummeted to 19 points below national average; a difference of 26 points!<sup>63</sup> This trend is observable throughout the USA. In 1995, Iowa, Arizona and Utah spent \$4344, \$3276 and £2629 per pupil per annum respectively. Their combined SAT scores were, again respectively, 1093, 1005, and 1031. In the same year, New York, New Jersey and Washington, D.C., spent, respectively, \$7647, \$7795, and \$7550 per pupil per annum. But their combined SAT scores were, respectively, 881, 885 and 840.<sup>64</sup> In 1997, public schools in Newark, New Jersey had the highest per pupil expenditure in the USA. Despite this fact, the SAT scores of the Newark pupils were so low that the schools had to be taken over by the state government.<sup>65</sup> Today the USA spends more per student than any other developed nation. Between 1981 and 1991 the average spending per pupil per annum increased by about \$3000. Thus, by 1991, the American taxpayer spent about \$6000 per pupil per annum. But, despite this huge increase, the average national SAT verbal scores fell to 422. This represented a

decline of 44 points from the 1967 peak of 466. Similarly, the average national SAT math scores fell to 474 points, 18 points below the 1967 peak of 492.<sup>66</sup>

However, the two most popular explanations for the above decline in SAT scores are clearly incorrect. Firstly, it is claimed that educational performance depends on class size. The average size of the American classrooms is 17, while South Korea has an average of 40 pupils per class. Yet, in the respected Third International Math and Science Study, South Korean 4<sup>th</sup> graders scored 2<sup>nd</sup> in mathematics and 1<sup>st</sup> in science, whilst American 4<sup>th</sup> graders came 12<sup>th</sup> in math and 3<sup>rd</sup> in science. Korean 8<sup>th</sup> graders came 2<sup>nd</sup> in math and 4<sup>th</sup> in science, whilst the American 8<sup>th</sup> graders came 28<sup>th</sup> in math and 17<sup>th</sup> in science.<sup>67</sup> The second explanation usually offered is the amorphous concept of self-esteem, or lack of it, on the part of the American pupils. Thus, tremendous resources have been put into promoting self-esteem among young Americans. As Sykes wrote, enhancement of the self-esteem has become the central obsession of the American educators.<sup>68</sup> But, when in 1989 thirteen-year-old children in six countries were tested in math and then asked whether they thought they were good at it, a very different picture emerged. The American pupils thought highest of their abilities, but performed the worst. The South Koreans, on the other hand, regarded their abilities with greatest suspicion, but performed the best.<sup>69</sup> In fact, Scheirer and Kraut reported that there is no empirical connection between self-esteem and academic performance as early as 1979. They wrote, "The overwhelmingly negative evidence reported here for a causal connection between self-esteem and academic achievement should create caution among educators ...who have heretofore assumed that enhancing a person's feelings about himself would lead to academic achievement".<sup>70</sup> As can be seen, the popular excuses

offered in order to defend the record of public sector in delivering quality education can be dismissed.

## VI. Social Engineering: The Cost

*How can there be a definite limit to the supreme power if an indefinite general happiness, left to its judgement, is to be its aim? Are the princes to be the fathers of the people, however great be the danger that they will also become its despots?*<sup>71</sup>

- G. H. von Berg

Since the 1960's the American social engineers faced the task of increasing the minority representation in the areas of social and economic life where these have been previously underrepresented. Based on the assumption that all groups are equal in their potential to succeed, proportionality became the new American dogma. To comply with it, "The National Science Foundation and the National Institute of Health have spent an average of \$135 million dollars *a year* of the taxpayers' money to increase the number of... [minority] scientists".

But that is a drop in the ocean compared with the financial and human resources that every American science association, nearly every university and most large corporations have devoted since the 1960s to increasing the number of... [minorities] who study science. These programs and projects begin in elementary school and extend through graduate school. They cover summer vacations as well as the academic year. Some bribe prospective students with large cash gifts



just for showing up... 'Big firms like Exxon, G. E. and IBM offer huge signing bonuses both for new minority recruits and for existing minority employees who help bring them in. Then, when the newcomers arrive at the company, the human resources department typically spends a small fortune trying to raise the odds that they'll stay'. The rivalry among companies to hire black engineers is so intense that they must make contributions to Howard University, whose students are black, before it allows them to conduct interviews with its engineering graduates. Companies pay scouts \$125,000 for each black engineer they recruit. These efforts have been especially desperate among computer companies. Nevertheless, in the past decade in California alone, 'more than a dozen [computer companies] have been cited for affirmative action violations, and several ... have paid hefty fines'.<sup>72</sup>

Similarly, each year the American "government awards hundreds of millions of dollars in set-aside programs that are awarded on a quota basis to minority organisations and businesses".<sup>73</sup> Thus, the US Defence Department is required to give at least 5% of its contracts to minority businesses. Many of its agencies "do not allow" white-owned companies to even bid for these contracts. The US Department of Transportation is compelled by law not to spend less than 10% of its federal funds with minority businesses. The Public Works Employment Act specifies that 10% of construction projects must go to minority contractors. The Small Business Administration annually awards contracts to the value of three to five billion dollars to minority businesses, even though most of them end up being a failure by market criteria. The Federal Communications Commission gives preferential treatment to

minorities “in the purchase and sale of radio and television stations”. Some of the minority representatives who benefited financially from these government subsidies are millionaires Vernon Jordan, Bill Cosby and O. J. Simpson.<sup>74</sup> Racial preferences are, of course, burgeoning at the state and local government level. “By 1989, at least thirty-six states and 190 local governments had adopted minority set-asides, earmarking a fraction, sometimes as high as 25 to 50 percent, of their expenditures for so-called minority... business enterprises”.<sup>75</sup>

These set-asides are common and their cost, as estimated by the US Congressional Research Service in 1995, comes to about \$10 billion per annum.<sup>76</sup> In fact, this Congressional report came out only months before the US Supreme Court’s decision in the case of *Adarand v. Peña*. In that case, a white-owned company sued the US Department of Transport for awarding contracts to minority businesses, even though these businesses were charging more. It turned out that the Department of Transport followed quotas, which the Supreme Court now deemed unconstitutional.<sup>77</sup> The Clinton administration reacted with fury. Assistant Attorney General for Civil Rights, Deval Patrick, stated, “It is important that we are not intimidated by *Adarand*. We have to take *Adarand* on”.<sup>78</sup> Indeed, the Clinton Administration proceeded to do exactly that. When, in 1996, a federal judge in Texas prohibited the Huston Metropolitan Transit Authority (MTA) from using race as a factor in awarding contracts, its federal overseeing body warned the MTA that it would loose hundreds of millions of dollars of federal money unless racial quotas were reinstated.<sup>79</sup> Similarly, later that year, a federal appeals court prohibited the use of racial preference in the admission of students to the University of Texas Law School. The US Department of Education responded by threatening the Texas educational authorities with withdrawal of \$500 million of federal moneys, unless they *disobeyed*

the court order.<sup>80</sup> Of course, the USSC's banning the states from continuing such practices unless discrimination is actually proven produced a multitude of studies aimed at finding it. The City of Miami hired an accounting firm to "locate discrimination in the city's own practices". When the study produced what should have been good news, in other words that there was no patterned discrimination, it was condemned. As the Deputy Mayor of Miami lamented, "The whole purpose of this study was for you to prove that there was a disparity in minority hiring".<sup>81</sup>

Before leaving the Oval Office, President Bill Clinton signed a large number of Executive Orders designed primarily to embarrass his Republican successor should the latter try to repeal them. Some were merely malicious, while others were outright damaging to the American economy – a good steward of which President Clinton has claimed to be. Executive Order 13166, for example, decreed that all federal agencies must give non-English speakers "equal access" to federal services. Predictably, the order has been "interpreted as an absolute entitlement". As a result, the U.S. Department of Health and Human Services issued compliance guidelines to its local branches to guarantee "free" services, for example interpreters and written materials in languages such as Farsi and Tagalog, to all welfare recipients. As Michelle Malkin writes, if doctors fail to provide these amenities, they can be cut off from Medicaid reimbursement and even sued for discrimination. One of the early victims of the order was the Maine Medical Center in Portland, which was forced to sign a settlement "requiring it to offer interpretation in eight languages including Somali, Spanish and Serbo-Croatian, both Cyrillic and Roman alphabet, at a cost of a quarter-million dollars a year". Of course, what needs to be borne in mind is that as a result of this one Executive Order stories like this are likely to be repeated in medical centres throughout the US, raising the costs to hundreds of millions of dollars per

annum. What also needs to be remembered is that Clinton, following the example of most of his predecessors, is responsible for issuing thousands of Executive Orders with a similar intent, the cost of which is likely never to be fully known. Yet these are merely seen costs. There are also unseen costs, for as the American Medical Association points out, “if forced to absorb the rule's costs for all Medicaid non-English speaking patients, physicians will simply decide not to treat any Medicaid patients”.<sup>82</sup> Of course, this is the exact opposite of what Clinton wanted to achieve.

Another example of the astonishing financial costs associated with social engineering is the plethora of American anti-discrimination acts. Though intended to encourage a level playing field, the natural human propensity to live at other people's expense had given rise to some remarkable perversions. Here are some recent examples from the USA,

- The 9th Circuit reinstated the disability discrimination claims of a county employee who was disciplined for sleeping on the job. The court reasoned that the plaintiff-employee, who suffers from anxiety, panic and somatoform disorders, which became “paralyzing”, and who took medications that made him drowsy and sexually impotent, produced sufficient evidence of substantial limitations on major life activities to proceed with his disability discrimination claim.
- A Florida phone sex operator won a workers' compensation case (US\$ 30 000) in which she claimed that she was injured after regularly masturbating at work. The woman claimed that she had developed carpal tunnel syndrome - a repetitive motion injury - in

both hands from masturbating as many as seven times a day while speaking with phone sex clients.

- The Equal Employment Opportunity Commission decided in July that an employee who was fired for his “obsessive” belief in the possibility of cold fusion - which most physicists believe is impossible - can sue his employer, the U.S. Patent Office, for religious discrimination.
- The United States' largest aerospace company has been sued for religious discrimination by a former employee who was fired for working in the nude at the office on Thanksgiving Day 1998 when he thought he was alone. A security guard turned him in for “violating the company's dress code”. The plaintiff charged that his termination was illegal because the company should have provided “reasonable accommodation” for his religion, shamanism.
- Ohio's 8th District Court of Appeals ruled that a clerical worker for a mental health agency who claimed he was fired after his employer determined that he had no history of mental health problems can proceed with a wrongful discharge claim. Characterizing the claim as one of reverse discrimination, the court ruled that the plaintiff, who was the only employee at the agency without a mental health disability (or a history of one), was entitled to a trial on his claim of reverse discrimination. [Thus, for the first time in legal history, sanity has been identified as a protected class.]<sup>83</sup>

In Canada, a man who became addicted to crack cocaine has recently decided to sue his drug dealers, "claiming they 'owed a duty of care' to their customers and should have known [that] their activities could cause harm".<sup>84</sup> Even sports are not safe from anti-discrimination legislation. According to the USSC ruling, the Professional Golf Association (PGA) can now be forced to let the disabled golfer Casey Martin ride in a cart during competitions. Other contestants, however, will still have to walk.<sup>85</sup> Similarly, the New York Road Runners Club, which organises the annual New York City Marathon, was forced to "establish a separate division of the race for entrants in wheelchairs, and award trophies to the winners". The club was then sued again by disabled entrants who complained that the club had violated the Americans with Disabilities Act (ADA), "by moving the marathon start time for 60 disabled people... from 8 a.m. to 8:40 a.m., a less convenient time for some entrants since it might require them to finish after dark".<sup>86</sup> Staying with the ADA, parents of a nine-year-old sufferer from cerebral palsy, filed a suit to force the local soccer team to admit the child "despite administrators' fears of injuries from his metal walker".<sup>87</sup> The ADA legislation was used again by a seventeen-year-old student, who was kicked off his university's basketball team for drunken driving. The boy demanded a compensation of US\$ 100 000 and his reinstatement to the team, claiming that he is an alcoholic. According to his attorney, ADA defines alcoholism as disability.<sup>88</sup>

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## Chapter Seven

*See if the law takes from some persons what belongs to them, and gives it to other persons to whom it does not belong. See if the law benefits one citizen at the expense of another by doing what the citizen himself cannot do without committing a crime.<sup>1</sup>*

- Frederick Bastiat

Despite the role that scholars play in public policy arena, by providing the social engineers with philosophical grounding and intellectual credibility, it would be wrong to say that social engineering is all imposed from above. On the other side of social engineering are the masses of people willing to derive advantages and benefits from labours of others. This chapter will begin by considering contemporary egalitarianism from the Public Choice Theory perspective. As will be shown, in a world where the government assumes control over an ever-growing proportion of resources, human proclivity to live at someone else's expense expands as well. To put it differently, the size of government is directly correlated with the degree of corruption; the more the government does, the more corruption there must be. Moreover, as the second and third parts of this chapter will show, the view that the parasitic behaviour of individual welfare recipients is most damaging to the economy is mistaken. In terms of economic growth, "corporate welfare" is a bigger problem. This is an especially important point, for Held's preferred solution to the disproportionate influence business exercises over governmental decision-making is to increase the governmental interference in the running of the economy even *further*. Somehow, the above author believes that more regulation and more

bureaucratic oversight will actualise without the accompanying increase in corruption and bribery.

In fact, the only effective way to stop corporate welfare and other forms of parasitic behaviour is to minimise the role of the government in the economy. The first and crucial step on this road must be the reinstatement of a strong conception of private property. This is so, because private property is an insuperable obstacle to egalitarian designs. Without destruction of the concept of private property, it is impossible to engage in “redistribution” or any other form of social planning. When people are safely in charge of their property – when they can withdraw behind the protective wall of their possessions - the social engineers are weak and vice versa. In this sense, therefore, private property not only thwarts the designs of the social engineers, but also maximises liberty. The fourth part of this chapter will, therefore, look at the historical link between property and freedom. As will be shown, private property is at the very heart of freedom conventionally understood. Though there have been autocratic societies with a free economy, there has never been a free society without a free economy. The last two parts of this chapter will then look at the long history of dislike for the conception of private property and show how contrary to actual human predispositions this is. Again, the issue of private property is of fundamental importance to this discussion, for Held’s own intuition is not to strengthen it, but to further weaken it.

## I. Public Choice Theory

*Every election is a sort of advance auction sale of stolen goods.*<sup>2</sup>

- H. L. Mencken

The basic assumption of the Public Choice Theory is that agents in the public sector are no more altruistic in what they do than, for example, managers of the General Motors. However, this assumption is the exact opposite of the popular view. Every time new regulation of business by government is proposed, it is automatically assumed that bureaucrats, who will enforce it, will behave with public interest at heart. But, as Buchanan argues, the public choice theory replaces this romantic perception of politics with common sense.<sup>3</sup> The example of the US Food and Drug Administration (FDA) may illustrate this point. The mission of the FDA is to screen out unsafe drugs from reaching the market. Because of the FDA regulations, pharmaceutical companies spend on average \$231 million and about 12 years to get any single drug approved. In some cases, the FDA regulations have been responsible for doubling the cost of drug development; cost that is then passed onto the consumer. Moreover, there is the issue of the so-called “orphan” drugs. Orphan drugs are aimed at diseases that are rare, affect few patients, and are, therefore, aimed at a relatively small market. However, because of the added cost associated with the FDA approval procedures, such drugs simply are never developed. These hidden costs of regulation cost the lives of thousands of people, but even the drugs that are developed go through a very long process of approval and, consequently, reach the market too late for many patients. The angina-treating Propranolol, for example, took 10 years to approve. According to a study by Arthur D. Little Associates, about 100

000 American patients died because of the delay. Similarly, the Nobel Prize laureate Dr. G. Hitchings calculated that because of the delay in the approval of the antibacterial drug Septra, about 80 000 Americans have needlessly died. But, as Williams comments, there is a reason for the long delay that has absolutely nothing to do with the quality of the drug! The FDA officials who approve a drug that ends up being harmful will have to assume responsibility for their decision. In order to keep their jobs and salaries, therefore, the FDA officials are over-cautious. They endeavour to be absolutely certain. The thousands of patients who die because of this over-caution thus become the invisible victims of the officials' self-interest.<sup>4</sup>

As can be seen, far from focusing on the quality of the product, an FDA official has a more important task on his hands; namely, protecting his job. Though other motivating factors, such as pride, loyalty, and even altruism must not be dismissed, the public choice theory is based on the assumption that public officials do, at least in part, behave out of self-interest.<sup>5</sup> Therein rests the problem. As has been seen when looking at Adam Smith's contribution to liberal philosophy, self-interest in the market place contributes not only to the well-being of the individual, but also to the prosperity of the society as a whole. Individuals like Smith's celebrated butcher, labour to benefit society without intending to do so. Moreover, they do so more efficiently than those whose explicit desire it is to do good.<sup>6</sup> Self-interest in the public sphere, on the other hand, is unambiguously damaging. As Starr writes,

[Public Choice Theory shows] that whereas self-interest leads to benign results in the marketplace, it produces nothing but pathology in political decisions. These pathological patterns represent different

kinds of 'free-riding' and 'rent-seeking' by voters, bureaucrats, politicians, and recipients of public funds. Coalitions of voters seeking special advantage from the state join together to get favourable legislation enacted... In general, individuals with 'concentrated' interests in increased expenditure take a 'free ride' on those with 'diffuse' interests in lower taxes. Similarly, the managers of the 'bureaucratic firms' seek to maximize budgets, and thereby to obtain greater power, larger salaries, and other perquisites. Budget maximization results in higher government spending overall, inefficient allocation among government agencies, and inefficient production within them. In addition, when government agencies give out grants, the potential grantees expend resources in lobbying up to the value of the grants...<sup>7</sup>

Societies, he continues, exhibit a need for certain collective or public goods. Of course, unanimous consent on the level of public provision of goods and services is impossible to achieve. So, Western societies work on a majoritarian basis, achieved in an environment of elected legislatures. It is by these means that special interest groups then try to influence the political process in their favour. The problem of rent-seeking arises when a special interest group is enabled by the majoritarian rule to push through laws that will help it obtain special favours at the expense of all others in the community.<sup>8</sup> There are two kinds of rent-seeking. Firstly, there are laws that award special privileges to some pressure groups, whilst taking them from others.<sup>9</sup>

The European farmers, for example, stand to suffer out from overseas competition. The New World and even Third World agricultural produce is cheaper

and were it to be allowed to reach the European consumer, many European farmers would find themselves priced out of the market. The European farmer is, therefore, faced with two options. He can either introduce cost-saving and efficiency-enhancing measures to cut his expenditures so that he can compete for the patronage of the customer, or he can invest his money, his time, and his electoral prowess to force the European politicians to raise trade barriers against overseas producers. His choice between the two depends on his assessment of which one is easier or cheaper to achieve. Again, the effect of these two ways of dealing with competition is startlingly different. A farmer choosing the former approach benefits the consumer. A farmer succeeding in the latter approach harms society. European farmers have opted for the latter approach and are, consequently, harming the European economy in a number of ways.

Firstly, protectionism raises the price of the agricultural commodities Europe produces to artificial levels, thus depriving the economy of a more efficient use of that capital. Of course, less efficient use of the capital does often mean loss of jobs in an economic sector, whose goods are in particular demand at the time. Strange though it may sound, agricultural protectionism may thus have a negative impact on, for example, computer makers. If the consumer has to pay more for food than would have been necessary under the free trade regime, he has less money left to spend on supplying his business with faster computers or upgrading his current computers with the latest software. In the case of one or two consumers, such wastage is of little importance, but the accumulated effect of such a distortion on the economy is tremendous. The country loses tax revenue from unsold computers and from the employees who will lose their jobs because of this decreased demand. Moreover, efficiency that could have been increased through upgrades with the latest computers

and software will not occur. Secondly, some of the resources that the European farmers have expended to assure the passage of the protectionist law are, from an economic point of view, wasted. Thirdly, the European farmers' actions cause his competitors to engage in defensive lobbying, thus causing an even greater wastage of effort. In other words, in order to prevent the European farmer from eliminating his competitors, these competitors will expend their own time and other resources to protect themselves. They may even lobby the very same politicians not to agree to the protectionist pleas of the European farmer. Fourthly, the European farmer harms the non-European producer, who is by his actions deprived of the ability to export to Europe. The Europeans, in other words, deprive the non-European producers of their income.

This point is of special importance today. Many of the contemporary opponents of free trade are the same people who claim, correctly, that the EU should do more to help the Third World. These two aims, however, are incompatible. The obvious way to help the poor countries would be to enable them to export to Europe and thus to earn money through exports. This is impossible as long as the European agricultural market is protected from non-European competition. But, the problem is even greater. One way the EU manages to keep the prices of agricultural produce artificially high is through its guarantee to buy European agricultural produce at a certain set and normally artificially high price. This, of course, means that the European farmers have every incentive to produce as much as possible. As a result, the EU produces more food than the European consumers can or will buy. The unsold food that thus accumulates is then dumped on the foreign markets at a discounted and below-the-market price. This produces further wastage of resources, for the difference between the price that the farm produce has been bought at and the



price that it has been sold at overseas, is met by the European taxpayers. Furthermore, the fact that the EU dumps its agricultural produce at a discounted or, to be more precise, a subsidised price undermines the overseas producers, including the farmers in the Third World. Instead of helping the people in less developed regions to develop, EU protectionism effectively destroys their livelihoods. As can be seen, therefore, the European Common Agricultural policy embodies all sorts of distortions of the market. It negatively affects the European economy, European consumers, as well as the non-European producers. Western societies, however, describe such measures in terms of “public” and “social” good.

But, the problem of rent-seeking is more complex. Under normal circumstances, the farmer who has obtained protection from overseas competition, is still subject to domestic competition. The state can grant monopoly status or protection from domestic competition to domestic economic agents as well. Buchanan illustrates this point with the following example.<sup>10</sup> In order to achieve the laudable objective of promoting safety standards, the City Council usurps for itself the right to issue, for a small fee, a taxi-driving licence to any qualified applicant. Because of laws of supply and demand, more licences will result in a decreasing fare price and, consequently, decreased incomes of the licensed taxi-drivers. Acting in self-interest, these licensed taxi-drivers will form a pressure group and convince the Council to limit the number of taxi-drivers to a particular, perhaps current, number. As the demand for taxis grows, however, the fare price will rise above what it would have been under the conditions of the free market. The licensed taxi-drivers will, in other words, begin to receive what is called a ‘monopoly rent’, or benefits from the lack of competition.

By its decision to limit the number of licences, the Council has not only distorted the market. It has also created an asset that can be traded at a price. If a retiring taxi-driver is permitted to sell his licence, he will do so, charging the highest possible price he can get away with. The Council, seeking to increase its revenue, will spot the potential for additional income and decide that it will now determine not only the recipients of the licences, but also the total number of licensed taxi-drivers. The Council will, therefore, establish an appropriate licensing Commission to deal with the matter and determine that this newly created Commission will keep the proceeds from the issuing of the licences. As soon as this happens, the Commission members and not the taxi-drivers will become rent-seekers and issue licences to the highest bidders.

Of course, the successful applicants for a licence will then recoup their investments in the licences by increasing the prices of their fares and passing the cost onto the consumers. This is not all, however. The Commission has now become a source of power and, possibly, a source of financial bribes with which the potential taxi-drivers will try to purchase the licences. Consequently, the members of the Council will start bribing and blackmailing each other for a place on the Commission to partake in the loot. Eventually, the corruption will be such that laws against bribery will be passed. These, however, will need to be enforced and the Council will thus have to expend additional resources on policing of the anti-corruption measures.

Alternatively, seeing the corruption among the members of the Commission, the members of the Council decide to remove the cause of corruption and rule that the proceeds from the licensing process will now go directly to the Council itself. Of course, the problem will not go away. But, now it is membership of the Council that becomes the target. The members of the public will expend time and money in costly

campaigns to win a seat on the Council. Of course, matters may get even more complicated. If, through vigorous enforcement of law, the money from licensing finds its way to the common coffers, another set of rent-seeking arises. Different special interest groups may now begin to pressure the Council to use the 'public' money for their own goals. These may include payment for a new brand-new fleet of automobiles for the use of the esteemed councillors, fact-finding missions to Hawaii or a new administrative building, the subcontractors of which will just happen to be Mayor's school friends.

As Gunning explains, the second kind of rent-seeking behaviour is an unavoidable part of the process of redistribution of resources, be it from one individual to another or from one group to another. When redistribution serves to address an instance of discrimination or other forms of injustice, redistribution itself is just. Being just does not, of course, mean that it is costless. Groups seeking reparation must often heavily invest in bringing the reparation about. There is also the cost associated with defensive lobbying by those who stand to lose as a result of reparation and the costs associated with the enforcement of reparations. But, it is with respect to redistribution between groups that the problem of free riding is most serious. In order for redistribution between groups to work, the membership of the group has to be clearly defined. Otherwise, the people who would normally not be deserving of reparations will attempt to jump onto the bandwagon. This is especially important with affirmative action. The affirmative action at American universities, for example, stipulates special treatment for all non-white and non-Asian minorities. However, according to these criteria, millions of non-whites, who have arrived in the USA following the 1960's civil rights reforms, are eligible for special treatment even though they never suffered from any form of institutionalised discrimination. This

problem then raises the so-called eligibility cost; the cost incurred by the rent-seeker, who desires to be re-classified to partake in the redistribution of resources. For example, in 1975 the Malone brothers failed to get the scores prerequisite for the employment with the Boston Fire Department. They reapplied as blacks and were accepted even though their marks were significantly lower than necessary. After serving for ten years, their fraud was discovered and they were fired. The scandal led to a witch-hunt in which five other firemen were found to have been white after all. They were all dismissed.<sup>11</sup>

The result of this kind of rent-seeking behaviour is the creation of a society where a great number of groups compete by bribery, blackmail and sycophancy to obtain benefits at the expense of others. The result is a society based on greed and parasitic behaviour; in other words, a welfare state. That said, it is often wrongly assumed that the criticism of the welfare state must always focus on the rent-seeking behaviour in the public sectors, such as education and healthcare. In fact, some of the largest abuses happen with regard to the “corporate” welfare state, which subsidises businesses, large corporations among them, in order to make them more competitive vis-à-vis their foreign competitors - many of which are also subsidised by their respective governments. Examples below will show the immense waste of resources that goes on in contemporary democracies. It should also be borne in mind that the examples below are an infinitesimal *fraction* of the real amount, be it in the USA or elsewhere in the world.

## II. Corporate Welfare State: The Myth

*The state is the great fictitious entity by which everyone seeks to live at the expense of everyone else.*<sup>12</sup>

- Frederick Bastiat

As with government-enforced unfair discrimination in favour of private individuals, the welfare received by business must also have some form of intellectual or moral grounding. As Moore argues, this is done through the perpetuation of “myths about the benefits of the government-industry partnership model”.<sup>13</sup> The first of these is the myth that the government can know and does know which companies deserve the taxpayers’ funding. This is based on the essentially socialist premise that the government is capable of distributing funds better than the market can. Socialist experience aside, the experience with government funding in the USA paints a very disturbing picture about the governmental ability to do so. As the U.S. General Accounting Office figures show, the federal loan programs have a rate of failed debt collection or “default rate” almost three times higher than commercial lenders.<sup>14</sup> The same applies to the Federal Housing Administration. Similarly, in the 1980’s the already discussed Small Business Administration had its default rates reach over 20%. The comparable figure for the Farmers Home Administration was almost 50%.<sup>15</sup> The above myth gives rise to a claim that government investment provides the taxpayer with long-term returns on investment and that this stimulates the economy. The evidence, however, points to returns that are either lower than the market returns, non-existent or even negative.<sup>16</sup> In fact, the evidence amassed over the past century of governmental interference in the market process clearly shows

that the government is simply incapable of doing what the capital markets do best – to direct capital to firms with the highest potential rate of return.

The second myth is that government subsidies improve the competitiveness of home industries. This kind of logic, however, damages the domestic market, where because of corporate welfare, the capital is diverted not to the most profitable firms, but to the firms with greatest political connection. Moreover, this often happens at the expense of firms with less political influence. Consequently, the latter firms are subjected to higher taxes, which in turn lower their competitiveness vis-à-vis the former. Another argument that is often made is that the subsidies are necessary in order for firms to compete against their overseas rivals, which too are subsidised by their respective governments. Of course, in the ideal world of free markets, there should be no tariffs at all and those who argue that the lowering of protectionism should be reciprocal do at first seem to have a point. Contrary to common misperception, however, it is not true that unilateral free trade is damaging to the economy. A country without protectionist policies does benefit in consumption as well as production. In an open market, consumers can buy whatever they want at the cheapest possible price. This enables them to make the most of their income.

On the side of production the story is slightly more complicated, because unilateral opening of the economy would probably result in harming some producers. But, as Wood argues, “the economy as a whole would still gain”. This is because the producers “are guided by the prices they see confronting them to produce what is most profitable for them and to do so as cheaply as they can”. In effect, therefore, the unconstrained price mechanism would direct capital to firms that would make the best use of it, giving the free economy a competitive advantage relative to the rest of the world.<sup>17</sup> It is not just the economic theory that shows the irrationality of corporate

welfare. In practice, up to 90% of all American businesses exist in the competitive international environment without recourse to subsidies. The answer to corporate welfare, it seems, must therefore rest in the influence that some US businesses exercise over the political process.

The above point is connected to the third myth about corporate welfare. This is the claim that partnership or cooperation between business and government is beneficial. This is not true, unless, of course, one wants the benefits to go to corrupt politicians and inefficient companies. Fully in line with the Public Choice Theory, it is clear that much of the tax breaks and subsidies distributed by the government go to companies that donate cash to political campaigns. To give some examples, the Clinton administration had in the past rewarded many of its donors with technology research grants. For example, the 1994 winners of the multimillion-dollar awards under the Advanced Technology Program and of the Technology Reinvestment Project included some of the biggest donors to the Democratic Party and to the Clinton-Gore election drive. These included AT&T, Boeing, Chevron, Exxon General Electric, IBM, Shell, Texaco, and McDonnell Douglas.<sup>18</sup> On the Republican side, the former Presidential Candidate Bob Dole, has been a recipient of contributions from Archer Daniels Midland, a company that produces federally subsidised ethanol and corn sweetener.<sup>19</sup>

The perversion of the entire scheme is exacerbated by the fact that almost all of the big companies “that chase corporate welfare dollars hedge their bets by giving to both parties”. In Washington, the way to gain a ‘seat at the table’ is to contribute bipartisanly. Industry learns the rules of engagement in Washington quickly: giving to both parties is tolerated; giving to neither is not”.<sup>20</sup> Of course, the corruption involved does not have to come solely in monetary terms. Also important is the

perversion of the electoral process. For example, before the 1992 presidential campaign, the Bush administration expressed its opposition to the development of the M-1 tank. With the Cold War over, the M-1 seemed like a waste of money. During the campaign, however, Dan Quayle travelled to Michigan with a promise of an additional \$250 million for the M-1 project. It will come as no surprise that Michigan is also the state where the M-1 was built.<sup>21</sup> Similarly, the cat-food-maker Ralston Purina, which in 2001 received over two hundred thousand dollars in government largesse, just happens to have its corporate headquarters in the constituency of the US House of Representatives Minority Leader Dick Gephardt.<sup>22</sup>

The fourth myth is that state subsidies benefit consumers and employees. Firstly, it is clear that subsidies raise prices and therefore damage the consumers. Some estimates place the annual cost of the US subsidies and, consequently, added cost to the American consumers, at between \$80 and \$100 billion.<sup>23</sup> Similarly, there is little connection between subsidies and creation of jobs. For instance, between 1990 and 1994, AT&T, Amoco, DuPont, Citicorp, IBM, Motorola, General Motors and General Electric were awarded a quarter of a billion dollars in subsidies, but reduced their US workforce by over three hundred thousand people.<sup>24</sup> One of the reasons why the protectionist argument is incoherent is because tariffs protect employees in one part of the economy often at the expense of employees in another part of the economy. In 1991, for example, the US imposed tariffs on cheap Japanese computer parts. That decision inflated the cost of personal computers manufactured in the USA by about \$1100. This reduced sales by US computer companies and, consequently, deprived many Americans of their jobs.<sup>25</sup> The \$80 to \$100 billion per annum that the US spends on protectionism should rather be invested elsewhere in the economy and create jobs there.



### III. Corporate Welfare State: The Cost

*There is, indeed, no genuine disposition among American public officials, or indeed among public officials anywhere, to reduce public expenses. As I have pointed out in this place a hundred times, they always try to lay on at least \$2 every time they "save" \$1.<sup>26</sup>*

- H. L. Mencken

Moore estimates that at the end of the 1990's the US government's subsidies to US business approximated to \$100 billion per annum. As he put it, "If all corporate welfare programs were eliminated, Congress would have enough money to entirely eliminate the capital gains tax and the death tax. Alternatively, Congress could cut the personal and corporate income tax by 10 percent across the board". Astonishingly, most of the businesses in the question are not even struggling to stay afloat. In fact, most subsidies went to the Fortune 500 companies, whose combined 1997 earnings were \$325 billion.<sup>27</sup> In 1996 these included General Electric with grants of over \$20 million, Rockwell International with grants of over \$25 million and Westinghouse Electric with grants of over \$26 million. In the same year, each of these companies posted profits of over \$500 million.<sup>28</sup>

Through its Rural Utilities Services and Power Marketing Administration, the US government subsidises large electric companies to the tune of \$2 billion. One of these companies, ALLTEL, could boast more than \$2 billion in sales in 1994. In this way, the US government holds down the price of electricity in places like the ski resorts in Colorado, five-star hotels in South Carolina and casinos in Las Vegas.<sup>29</sup>

Similarly, in 1997, the US Forest Service “spent \$140 million building roads in national forests, thus subsidizing the removal of timber from federal lands by multimillion-dollar timber companies”. As Moore calculated, over the last two decades, the Forest Service has built “340000 miles of roads - more than eight times the length of the interstate highway system - primarily for the benefit of logging companies”. Another part of the corporate welfare state is the US Department of Agriculture’s Market Promotion Program (MAP), which spends about \$100 million per annum advertising US products overseas. Recipients of the MAP largesse include Tyson Foods with \$500000 in 1995, Pillsbury Dough Boy with \$526000, Ocean Spray Cranberries with \$308000, California Prune Board with \$2 million; Kentucky Distillers’ Association with \$1 million and the Campbell Soup Company with \$281000.<sup>30</sup>

Similarly, between 1990 and 1994 the US Commerce Department spent \$280 million in research grants to some of the largest companies in the USA. Among these were IBM, AT&T, DuPont, Amoco Corporation, Citicorp as well as General Motors, General Electric and Motorola. The combined profits of these companies in 1994 were \$26.8 billion.<sup>31</sup> Since 1986 the US government has been promoting the sales of its microchip industry in countries such as Japan and Germany. The US microchip giant, Intel, was among its main recipients. In 1998 the US Trade Commission was spending the US taxpayers’ dollars again. This time, it was suing Intel under antitrust legislation for being too big. Continuing with the absurd, the US Senator J. McCain of Arizona, one of the main pork-barrel opponents in the US Senate, compiles an annual list of the ten most outrageous federal grants. In 2001 these included, \$250000 for onion research in Georgia, \$300000 for the Pineapple Growers Association in Hawaii, \$1.5 million for sunflower research in North Dakota,

\$400000 for the Southside Sportsman Club in New York, \$400000 for the National Center for Peanut Competitiveness in Georgia, \$250000 for potato research in Washington, \$100000 for a programme aimed at providing information on the *use* of trees, \$176000 for the Reindeer Herders Association in Alaska, \$5 million for an insect rearing facility in Mississippi and \$1.5 million to refurbish the Vulcan Statue in Alabama.<sup>32</sup>

As Moore writes, protectionism harms society in three distinct ways. Firstly, purchasing favours and concessions in the corridors of power and “donating” money to the election campaign of a corrupt politician in exchange for his promise to support more handouts in the future makes a mockery of democracy. Secondly, protectionism often results in directing the resources from the poor to the rich. This is because the companies with largest profits also have the money and the political influence to purchase favours from corrupt politicians. Thirdly, protectionism negatively affects the economy by misdirecting and misusing the capital and thus lowering the rate of economic growth and the overall standards of living of the population. As Jorgenson calculated,

[Every] additional dollar of taxes collected by the IRS exacts a \$1.35 toll on the economy because of collection costs and economic efficiency losses. This means that for a corporate welfare expenditure to be economically wealth producing, the benefit of every dollar spent must exceed \$1.35. A 35 percent return on a dollar of government spending is the de facto economic break-even point. If the program yields less than a 35 percent return, the nation would be richer if we cancelled the spending and cut taxes by that amount.<sup>33</sup>

Even if the government were able to do produce \$1.35 return on each dollar invested, it would still be bad for the economy, because the government channels money away from those areas of the economy where it could make real, often manifold, profits. Historically speaking, however, it has been difficult for the government to match a dollar spent by a dollar gained. More often than not, the government made a loss that is inherent to the way the government functions. Though it is possible that many of the protectionist decisions made are well intentioned, the laws of economics cannot be evaded. As a result, all decisions that are based on considerations of, for example, public good, however defined, and that do not take into account the price mechanism that within the free market guides capital into the most profitable areas of the economy, run the risk of repeating and perpetuating the above sorts of distortions. To re-emphasise, by departing from the price mechanism as a guide to investment, the government deprives itself of the ability to know how the money should be spent without wastage and negative results for the aggregate rate of economic growth.

#### IV. Private Property and Freedom: The Historical Perspective

*What our generation has forgotten is that the system of private property is the most important guarantee of freedom, not only for those who own property, but scarcely less for those who do not. It is only because the control of the means of production is divided among many people acting independently that nobody has complete power over us, that we as individuals can decide what to do with ourselves.*<sup>34</sup>

- F. A. Hayek

Corporate welfare is only one of the many ways in which the society “distributes” wealth from one group to another. The result is a complex web of parasitic behaviour, with each group attempting to maximise the benefits it receives and minimise the contribution it makes to the common coffer. Of course, it is only in the political arena, that income is “redistributed”. In the market, it has to be earned. What the governmental expropriation of the money earned by millions of economic agents does, is to politicise needlessly a huge part of the lives of the people, who, in turn, vie for unearned rewards. Exterminations of large parts of populations of Germany and USSR are poignant examples of what happens when economic rewards are taken out of the market sphere and distributed by politicians according to some social criteria. Vitally, neither Communism nor Nazism would have been possible, were it not for the overwhelming power of the state in USSR and in Germany. This power was immeasurably enhanced by the governmental control of the economy, be it through its ability to confiscate property or by its ability to deny employment to political dissenters. Private property, therefore, is central both to the functioning of the free market and to the existence of a free society. The Cosmopolitan proposals

aim at further weakening of the concept of private property. This should not be surprising. Elimination of private property is necessary if social engineering is to succeed.

Conversely, private property has shown itself to be the necessary, though not sufficient, requirement for the birth of freedom. Again, it is the ancient world that provides contemporary scholars with the first examples of this connection. Ancient Greece was an agricultural society, with a population living on the lands surrounding the city-states. Land was passed from one generation to another and “rarely” traded. The reason for this was that private possession of land was linked to the rights of citizenship and the vote. The Greek, who lost his land, lost his citizenship. Pipes writes, “In ancient Athens landownership and citizenship were indissolubly linked, in that only citizens could own land and only landowners could be citizens... Since Solon’s time, there were property qualifications for high office. Thus, in effect, a property census was established for political participation...”<sup>35</sup>

But, it was in England that defence of private property brought about a birth of limited government in the modern sense. Two events were of vital importance in these struggles. First was the publication of Magna Carta and the second was the self-assertion of the Parliament during the reign of Charles I. Magna Carta was a series of concessions issued by King John to the disgruntled English nobles in 1215. Though it is true that John’s predecessors had made concessions to their nobles, these concessions were always granted “by” the king, never exacted “from” him. Understanding of the reasons for the wrath of the nobles is thus of importance. It will come as no surprise that at the root of the problem was the Crown’s growing expenditure and the ever-increasing demands it placed on the private property of the nobles. There were the heavy taxes exacted to pay for the Third Crusade and for the

ransom of Richard I, after his capture by Henry VI. Then there was the cost associated with John's defence of his French possessions. Then, when he lost them, John increased the taxes to make up for the lost tax revenue. There followed a quarrel with Pope Innocent III and John's taxing of the church. Ultimately, it was the Archbishop of Canterbury, who directed baronial unrest and succeeded in exacting the terms of the Carta.

According to these terms, the King was forced to clarify property law with regard to the lands leased from the crown. Special attention was paid to the behaviour of the royal guardians, who were appointed to oversee these lands during the time of minority of the heirs. There were guarantees to towns and merchants. As the Carta stated, all "cities, boroughs, towns, and ports shall have all their liberties and free customs". To merchants John promised freedom from arbitrary exercise of royal will and granted them the sort of freedom of contract necessary for the growth of trading activities. According to the Carta, the merchants shall "be able to go out of and come into England safely and securely and stay and travel throughout England, as well by land as by water, for buying and selling by the ancient and right customs free from all evil tolls". The Carta also provided for the end of scutage. The scutage originated as a payment made by a knight to his King to commute the military service the knight owed him. Although it was first levied on the Church, which found it difficult to fulfil its quota of men for military service, it soon became generalised across the board. Thus, the Crown demanded scutage, while denying the taxpayers the postponement of the military service. As a result, the Carta prohibited the levy of scutage without the agreement of the great council. The King was also compelled to promise that no "free man shall be arrested or imprisoned or disseised or outlawed or exiled or in any way victimised, neither will we attack him or send anyone to attack

him, except by the lawful judgement of his peers or by the law of the land". To make the King uphold its terms, the Carta appointed a council of twenty-five barons who had the right to wage war against a non-complying King.<sup>36</sup> As can be seen, the concessions contained in the Carta were truly revolutionary. What started as a tax revolt, ended in a wholesome limitation of the monarch's ability to dispense with the life and property of his subjects in an absolute way.

The Magna Carta was merely the beginning of a long process that culminated in the establishment of British parliamentary democracy. Following the signing of the Carta, the monarch remained a very powerful figure. It took another four hundred years before England saw the emergence of an independent Parliament with power equal to that of the Crown. Today, with its derivations spread across the world, it is easy to overlook the events, which led to the self-assertion of the English Parliament. But, as Burke writes, it was once more the issue of taxes and the royal infringement on the institution of private property that underlined the revolt against King Charles. "Liberty", he wrote, "inheres in some sensible object; and every nation has... some favourite point, which by way of eminence becomes the criterion of their happiness. It happened, you know, sir, that the great contests for freedom in this country were from earliest times chiefly upon the question of taxing".<sup>37</sup>

As Pipes narrates, from the time of King John, royal power in England progressively declined because of excessive expenditures, wars, extravagance, poor management, and inflation. Though the financial straits of the English monarchs were common, it was the reign of James I and Charles I that finally broke the exchequer. When James I assumed the throne, the debt of the crown was £400 000. He himself managed to more than double it. By 1615, James could no longer obtain credit. To cover his debts, James sold much of the Crown's lands. Though he



obtained a quick financial relief, he lost the long-term revenue from leasing that land, putting his son Charles in a desperate situation. Charles' answer to his financial situation was to search for new ways to obtain money. When the parliament refused to give him the right to customs duties, he dissolved the parliament and proceeded to extract it anyway. Failing to meet his financial needs, Charles "demanded" loans from affluent citizens, arresting those who refused. This went against the very essence of the English understanding of liberty.<sup>38</sup> As Sommerville wrote, "To say that something was a man's property... was precisely to say that the thing in question could not be taken away from him without his consent. To take property without consent was to steal, and thus to break the Eight Commandment".<sup>39</sup> To obtain additional funds, therefore, Charles was compelled to sign the "Petition of Right", promising not to impose taxes without the consent of the parliament. This act, Hexter wrote, was "the decisive first step in the direction of modern freedom, of liberty as we know it in our world".<sup>40</sup> Thus, as with ancient Greece, property was at the centre of struggle for freedom in England as well.

But, as Milton Friedman observed, it is often assumed that politics and economics are separate; that the question of civil liberties should be tackled through political arrangements, while the question of material well-being should be tackled through economic arrangements. Consequently, there are many, who claim that it is possible to respect civil liberties and at the same time to adopt the essential features of the communist economic model. As Friedman claims, countries with socialist economies cannot be free, for economic arrangements are of dual importance in the promotion of freedom. "On the one hand", he writes, "freedom in economic arrangements is itself a component of freedom broadly understood, so economic freedom is an end in itself. In the second place, economic freedom is also an

indispensable means towards the achievement of political freedom.”<sup>41</sup> When it comes to the first role, it is clear that a citizen who is forced to purchase a government retirement package or government healthcare and is, consequently, deprived of the option to invest his money in a private retirement fund or spend his money on private healthcare, is also deprived of his freedom. The close correlation between economic freedom and political freedom, Friedman narrates, was clearly dramatised by the case of the Amish sect, which opposed the compulsory retirement programme in the USA and “refused to pay taxes or accept benefits”. As a result, the US government simply took and sold some of the Amish livestock in order to pay for the retirement levies. When it comes to the second role, the case for the free market is also clear. Economic arrangements, Friedman writes, “are important because of their effect on the concentration or dispersion of power. The kind of economic organisation that provides economic freedom directly, namely, competitive capitalism, also promotes political freedom because it separates economic power from political power and in this way enables the one to offset the other”. Thus, while there have been autocratic societies with a free economy, there has never been a free society without a free economy.<sup>42</sup>

This observation is, of course, of fundamental importance to this discussion, for the Cosmopolitans claim that it is possible to wed socialist economy with civil liberties. But, this is unlikely to be practicable. Any departure from a free market economic arrangement, of which inviolability of private property is an integral part, must unavoidably result in the decline of freedom, the degree of which depends almost entirely on the degree of the said departure. Of course, it is clearly possible to start with restrictions on economic freedom involving only government-enforced retirement packages and nationalised healthcare. But, where will it end? In the

1970's, to give one example, the Labour Party imposed a myriad of restrictions, culminating with the "Control of Engagements" order that meant a centralised allocation of individuals to occupations, a system in place in the USSR. Such was its incompatibility with the idea of personal freedom that the government was forced to repeal it.<sup>43</sup> As can be seen, therefore, private property is deeply interconnected with individual liberty. Leon Trotsky acknowledged as much when he wrote, "In a country where the sole employer is the state, opposition means death".<sup>44</sup> Similarly, as the American Marxist Max Eastman wrote,

It seems obvious to me... that the institution of private property is one of the main things that have given man that limited amount of free and equalness that Marx hoped to render infinite by abolishing this institution. Strangely enough Marx was the first to see this. He is the one who informed us, looking backwards, that the evolution of private capitalism with its free market had been a precondition for the evolution of all our democratic freedoms. It never occurred to him, looking forward, that if this was so, these other freedoms might disappear with the abolition of the free market.<sup>45</sup>

As has been seen, the writers of the Scottish Enlightenment believed that the institution of private property was the *sine qua non* for the growth and preservation of liberty. Despite the overwhelming evidence to the contrary, which he himself acknowledged, Marx came to see private property as "socially conservative in its effect".<sup>46</sup> As some of his latter works show, he was fascinated with pre-history, when, he assumed, humanity was not yet "corrupted by private greed".<sup>47</sup> No

evidence for such a belief has ever been found, but as a result of Marx's influence, the 20<sup>th</sup> century mirrored his view that social progress was wholly dependent on the abolishment of private property. But, as will be seen below, Marx's view of private property was in no way original.

## V. Pandora's box of Equality

*"I have no respect for the passion of equality, which seems to me merely idealising envy."*<sup>48</sup>

- Oliver Wendell Holmes, Jr.

All major monotheistic religions – Judaism, Christianity and Islam – contain a variation of a myth of a perfect, original society. Characteristic to all these societies is the lack of private property.<sup>49</sup> The earliest such myth is to be found in Hesiod's Works and Days. Hesiod divided human history into four metallic ages: Golden, Silver, Bronze, and Iron. Each of these ages was progressively worse, just as the metal after which it was named was inferior to the preceding one. The defining characteristics of the Golden Age were common possession of property and the resulting peace. The characteristics of Hesiod's contemporary Iron Age were profit-making and violence.<sup>50</sup> Like Hesiod, Plato too saw property as a cause of social strife.<sup>51</sup> His ideal society comprised of the wise rulers called "guardians" and of the commoners. The guardians lived communally and had no private property, so as not to "tear the city in pieces by differing about 'mine' and 'not mine'".<sup>52</sup> With their needs provided for by the commoners, Plato believed, the guardians would behave in ways that benefited all. As Pipes writes, over two thousand years later, Lenin

fulfilled Plato's dream. Asserting that the commoners could never rule themselves, Lenin placed the destiny of the Russian people in the hands of the socialist intellectuals. History shows, he wrote, "that the working class, exclusively by its own effort, is able to develop only a trade union consciousness... The theory of socialism... grew out of the philosophic, historical and economic theories that were elaborated by the educated members of the propertied classes, the intellectuals."<sup>53</sup>

Of course, the communist experiment showed the "guardians" to be anything but wise and altruistic. The self-serving elite in the Soviet Union provides a definite refutation of Plato's vision. However, Lenin was correct in asserting that communism, socialism, and all other forms of egalitarianism originated not in evolutionary developments, but in intellectual exercises devoid of considerations of actuality. As Hayek observed, socialism "is a construction of theorists, deriving from certain tendencies of abstract thought with which for a long time only the intellectuals were familiar; and it required long efforts by the intellectuals before the working classes could be persuaded to adopt it as their program".<sup>54</sup> Not surprisingly, Lenin, a man who never had a proper job in his entire life, led the communist intellectuals, who took over Russia in November 1917.<sup>55</sup> But, as with Lenin, Marx did not have a steady job either. His income came from Engels, who got his money making profit out of the same workers Marx was trying to "liberate".<sup>56</sup> In fact, to this day, most left-leaning intellectuals lack "direct responsibility for practical affairs".<sup>57</sup> Not surprisingly, most of them can be found among the dreamy towers of the academe.<sup>58</sup>

Chesher and Machan contend that much of the dislike for private property among many intellectuals lies in their insistence on the dualistic view of human experience. This dualism concerns the artificial distinction between the temporal and

the spiritual experience. The intellectuals' self-serving bias in favour of the latter may date, yet again, to antiquity.<sup>59</sup> Socrates, through the writings of Plato, is said to have believed in a three-way distinction of human persona. The first and the highest part of being was reserved for reason and intellectual pursuits, while the lowest part was concerned with appetites and material worries. Though it is clearly possible that Socrates intended the two parts to be seen as mutually dependent, Plato's writings turned them into polar opposites. In the Republic Plato thus recreates one of Socratic dialogues,

Socrates: Take the other craftsmen again and consider whether these things corrupt them so as to make them bad.

Adeimantus: What are they?

Socrates: Wealth and poverty.

Adeimantus: How?

Socrates: Like this: in your opinion, will a potter who's gotten rich still be willing to attend to his art?

Adeimantus: Not at all.

Socrates: And will he become idler and more careless than he was?

Adeimantus: By far.

Socrates: Doesn't he become a worse potter then?

Adeimantus: That, too, by far.<sup>60</sup>

Spiritual development, in other words, was to take precedence over worldly needs. Cheshier and Machan, however, contend that to separate the spiritual and the worldly is dangerous and counterproductive. Acquisition of material resources as well as a

prominent position within one's society can, in fact, be seen as an expression and fulfilment of one's own intellectual prowess; an assertion of one's superiority over one's fellow men, not through the force of arms, but through the provision of a valued service. Indeed, in the past, much pride has been taken from the achievements of one's own person or family. During the renaissance, for example, once a year all wealthy families in Florence brought their worldly possessions out of their houses and placed them in the street. Golden jewellery, silverware, money, and expensive carpets would be placed there for all to admire.<sup>61</sup> It was honourable to be wealthy and successful.

These two attitudes to property acquisition, taken to their proper extremes, could thus be no more different. As such, they have given rise to two very different philosophical strands. The Stoics have derived their philosophy from the teachings of Zeno. Zeno, like Socrates, believed in a general detachment and independence from the outer, material world. The body, in other words, became a prison of the mind; the dirty polluting the immaculate.<sup>62</sup> Epicureans, on the other hand, believed in a "harmony of body and mind". To be happy, was to unify what the Stoics have separated.<sup>63</sup> Christian doctrine did much to enforce this duality through its insistence on the rewards in the afterlife.<sup>64</sup> The Bible, for example, sanctions the disdain for private property. Gospel of St Mark says, "It is easier for a camel to go through the eye of a needle than for a rich man to enter the kingdom of God".<sup>65</sup> Though Thomas Aquinas argued that common ownership promoted inefficiency and discord, the relationship between the Church and property remained uneasy.<sup>66</sup> As Populorum Progressio and Octogesima Adveniens of Pope Paul VI show, the utopian and essentially socialist undercurrents of the Catholic Church persisted well into the twentieth century.<sup>67</sup>

The anti-property sentiments were reinvigorated with the discovery of the New World and the Western encounter with the “noble savage”. Columbus’ discovery created an immense interest in the subject of natural liberty, property and proper governance. The one view that all early commentators on the Americas shared was the resemblance the New World had to the mythical Garden of Eden.<sup>68</sup> As Columbus himself wrote, he was pleasantly surprised to find that Indians shared their possessions.<sup>69</sup> Columbus contrasted such “virtues with Spanish vices”. However, as the European understanding of the indigenous societies grew, the words of praise and admiration turned to those of abhorrence. Running below the communal enjoyment of property was an undercurrent of remarkable savagery and a disregard for human life. As D’Souza writes, cannibalism was widespread among Guarani, Iroquois, Caribs, and others. Aztecs engaged in cannibalism regularly, eating human flesh with peppers and tomatoes. “Children”, he continues, “were regarded as a particular delicacy”. Both Aztecs and Incas also partook in religious ceremonies “in which thousands of captive Indians were ritually murdered, until their altars were drenched in blood, bones were strewn everywhere, and priests collapsed with exhaustion from stabbing their victims”.<sup>70</sup>

Though the shift from the naïve and empirically incorrect understanding of the original societies did eventually occur, the one place where it continued to persevere was in academe. Like Plato, French philosophers such as Morelly, Saint-Just and Helvetius saw communal possession of property as essential to the creation of an ideal society.<sup>71</sup> Rousseau wrote,

The first person who, having enclosed a plot of land, took it into his head to say *this is mine* and found people simple enough to believe him,



was the true founder of civil society. What crimes, murders, what miseries and horrors would the human race have been spared, had someone pulled up the stakes or filled the ditch and cried out to his fellow men: 'Do not listen to this impostor. You are lost if you forget that the fruits of this earth belong to all and the earth to no one!'<sup>72</sup>

Rousseau's argument was based on no evidence at all. The ideal society that Rousseau envisaged had no precedent.<sup>73</sup> Strangely, Rousseau himself admitted that his philosophy was but a fantasy. As he said to Boswell, "Sir, I have no liking for the world. I live here in the world of fantasies, and I cannot tolerate the world as it is... Mankind disgusts me".<sup>74</sup> The utopian writings of Rousseau and many others like him did, however, have a huge impact on the 20<sup>th</sup> century, for they have fuelled the idea that private property and the consequent material inequality is somehow unnecessary and unnatural.

Modern social engineers subscribe to a version of this unflattering view of private property. The regime of private property guarantees possessions of goods acquired by lawful means and pays little attention to whether these possessions end up being equal. If achievement of equality is, as it is today, elevated to the first governing principle of society, then the inegalitarian regime of private property must be the first obstacle to tackle. Thus, Cosmopolitans have no choice but to abandon the principle of inviolability of private property. Instead, they turn to "tough" conception of "redistribution" and the need for a distinction between the acceptable form of private property, such as the "shirt on one's back" and the unacceptable form of private property, such as the "IBM shares". However, this has been tried before. The 20<sup>th</sup> century was extreme in both the extent of social engineering and destruction

of private property. In the 20<sup>th</sup> century, Bethell writes, “there has been a far-reaching attempt to restore the legal distinctions of persons... Increasingly, laws make allowances for such characteristics as race, gender and ethnicity. At the same time there has been an attempt to... delegitimize property, to deconstruct it, to abolish it, or expropriate it, at the least to redistribute it”.<sup>75</sup>

## VI. Nature vs. Nurture

*The propensity to truck, barter and exchange one thing for another is common to all men, and to be found in no other race of animals.*<sup>76</sup>

- Adam Smith

Every time human society sought to organise its affairs along egalitarian lines, it has failed. Neither Soviet Communism nor its Cambodian version had worked. The same applies to the communist experiments among the colonists in Jamestown and Plymouth and Robert Owen’s commune in Indiana.<sup>77</sup> But, the private property regime is not only practically advantageous. It is also naturally necessary. Firstly, evidence shows that property acquisition is nearly universal among animals.<sup>78</sup> Being dependent on its survival without recourse to external benefactors, the animal monopolises its territory.<sup>79</sup> This enables it to “develop a detailed knowledge of its environment and... to construct an inventory of... vantage points, hiding places, etc.- which facilitate quick and effective responses to danger and attack”.<sup>80</sup> As such, the animal “limits itself to one or more small areas, known as its range; this it does not normally leave except under dire necessity. Within this range, too, the animal does not move at random, but only along particular paths and according to a fairly fixed schedule”.<sup>81</sup> Possessive behaviour

can also be observed among insects.<sup>82</sup> Dragonflies attack one another to protect the areas where they laid their eggs.<sup>83</sup> Fish too defend their breeding territory.<sup>84</sup> Some primates, Pipes writes, assert exclusivity of their land claims by sitting on it. Humans exhibit similar behaviour and words denoting the act of possession are, therefore, strikingly similar in many languages.

Thus, the German verb for “to own”, *besitzen*, and the noun for possession, *Besitz*, literally reflect the idea of sitting on or, figuratively settling upon. The Polish verb *posiadać*, “to own”, as the noun *posiadłość*, “property”, have an identical origin. The same root underpins the Latin *possidere*, namely *sedere*, “to sit”, from which derive the French *posséder* and the English “to possess”. The word “nest” derives from a root (nisad or nizdo) signifying “to sit”. The monarch occupying the throne has been described as engaging in “nothing else but the symbolic act of sitting on the realm.”<sup>85</sup>

Standard literature of social engineering assumes that property acquisitiveness is a symptom of a capitalist society and, therefore, a social vice. But, in order to substantiate this argument, social engineers have to show that children, who have been untouched by social norms, do not exhibit “possessive behaviour and learn it only as they grow older under the influence of adults”. In fact, the evidence suggests the exact opposite. While children are exceedingly possessive, they grow to share under social influence. This is so, because, as with animals, “the leading causes of human acquisitiveness are economic and biological: the need of territory and of objects with which to sustain oneself and to procreate”.<sup>86</sup> Being the most vulnerable members of society, it is not

surprising that possessive behaviour manifests itself in its extreme among children. As research shows, young children build an attachment to familiar objects, such as toys and blankets. At two years, children wish “to possess as many things as possible” and display “strong feeling of ownership... ‘It’s mine’ is a constant refrain”.<sup>87</sup> This pattern of possessive behaviour can be observed among all children, no matter where they live and what culture they belong to. Children living on the Communist kibbutzim in Israel are no exception.<sup>88</sup> But, private possession does fulfil more than just a biological urge. As William James wrote, “In its widest possible sense... a man’s Self is the sum of total of all that he can call his, not only his body and his psychic powers, but his clothes and his house, his wife and children, his ancestors and friends, his reputation and works... [his] yacht and bank-account”.<sup>89</sup> Thus, it is clearly undeniable that humans naturally gravitate towards some form of private property arrangement and do tend to be dissuaded from doing so only by persuasion or, and this is more likely, by force of the kind witnessed throughout the course of the 20<sup>th</sup> century.

Of course, this does not mean that all impulses found in human nature must be tolerated. Aggressiveness, for example, seems to be as deeply embedded in human nature as acquisitiveness of private property. But, the two are different in both moral and practical sense. Property acquisitiveness through voluntary exchange and within the rule of law does not harm people in any meaningful sense. Aggressiveness, on the other hand, is unambiguously harmful. Moreover, no society tolerating an unrestricted outpouring of aggressive behaviour could survive for long. On the other hand, no society without private property can continue to be free and prosperous.

But, what are the practical policy implications of this “nature versus nurture” debate? According to Darwin, “So in regards to mental qualities, their [biological] transmission is manifest in our dogs, horses and other domestic animals. Besides

special tastes and habits, general intelligence, courage, bad and good tempers, etc. are certainly transmitted [biologically]. With man we see similar facts in almost every family”.<sup>90</sup> The last sentence of Darwin’s is crucial. In accepting nature-determined behaviour amongst animals, Darwin logically assumed that the same applied to man. Why, after all, should man be different? Social engineers, on the other hand, believe that man “has no instincts... [and that] everything he is and has become he has learned, acquired, from his culture, from the man-made part of environment, from other human beings”.<sup>91</sup> These beliefs make biological determination of behaviour politically unacceptable. As Stephen Jay Gould asserts, opposing sociobiologists is a political as well as a scientific task. As he writes, “If this subject were merely a scholar’s abstract concern, I could approach it in more measured tone. But few biological subjects have had a more direct influence upon millions of lives. Biological determinism is, in its essence, a theory of limits”.<sup>92</sup> Gould is right. Socio-biology is a theory of limits – limits of social engineering action. As such, the theory questions not only the assumptions of social engineers, but also the need for their existence and usefulness. It embraces a vision of the world that is essentially tragic. A vision of the world, where accidents do happen; a vision where people live in inequity; a vision where some people are dealt cards inferior to others. This then is a conflict between two competing understandings of the world. On the one side, there is the perfect society of Plato and of St Thomas Moore. On the other side, there is the tragic society of Burke, Tocqueville, Berlin, and Hayek, struggling to come to terms with its imperfections. In the former, lawmakers strive to turn people into what they are not. In the latter lawmakers strive to limit the damage imperfect beings inflict on each other.<sup>93</sup>

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## Chapter Eight

*I should have loved freedom, I believe, at all times, but in the time in which we live I am ready to worship it.<sup>1</sup>*

- A. De Tocqueville

Throughout this thesis, social engineering has been attacked from three different perspectives. Firstly, social engineering is based on the assumption that groups are equal in their potential to succeed. This is wrong, for groups differ in their abilities. Secondly, social engineering compromises economic growth and this results in increased unemployment and poverty. Thirdly, social engineering compromises private property and thus it compromises liberty itself. These arguments, however, do not strike a chord with those, who find a poor but “just” society preferable to a rich but, as they see it, “unjust” one. And, there are many people, who see free society and free markets as unjust. According to this view, capitalism discourages justice or “fairness” in distribution of resources and rewards. As such, a society that furthers the above conception of justice, even if it does at the same time perpetuate poverty, can be seen as defensible. The USSR is a good example. Even though Communism was economically crippling, the Soviet conception of justice, in as far as it was the antithesis of the capitalist reward schemes, was seen by many as laudable. So, as De Soto had argued, an argument for a free society must be both practical and moral and it is the morality of the markets that will be considered below.

As Kirzner’s argument shows, in a world where there is no totality of knowledge and where the entrepreneur has to be alert to the opportunities arising

from the market and where he then has to assume the risk of being wrong, profits are earned in a moral sense as well. Of course, in the cases of both the over-performing group and the individual entrepreneur, the rewards they receive are at least in part based on what Rawls calls “the morally arbitrary distribution of natural endowments”. Rawls is correct. The markets reward people for deeds achieved through the medium of arbitrarily distributed endowments. Literally no reward a human being receives can be said to be, so to speak, “luck-free”. Just as an intelligent woman will in her lifetime reap the benefits of her being born intelligent, a beautiful woman will receive a number of “lucky” breaks. Of course, one of the main points of Rawls’ thesis is to justify governmental intrusion in order to correct the accidents of birth. But, Rawls’ argument depends on a particular conception of desert. As Schmidtz writes, it is possible to understand desert not in terms of what one did, but in terms of what one can do.

### **I. Which Liberalism?**

*As a supreme, if unintended compliment, the enemies of the system of private enterprise have thought it wise to appropriate its label [liberalism].<sup>2</sup>*

*- Joseph Schumpeter*

The word “liberal” was first used in the British context to classify the 1868 government of William Gladstone. In order to jettison its aristocratic connotations, Earl Grey and Lord Melbourne precipitated the popularisation of the term by renaming the Whig party in the House of Commons the Liberal Party. As such, modern liberal politics had its roots in the radicalism of the Old Whigs, who pestered

the English conservative establishment in the House of Commons for much of the 18<sup>th</sup> century. Under the leadership of Marquis of Rockingham and Charles Fox, the Whigs favoured freedom for the American colonies and, in the domestic sphere, they favoured electoral reform that would get rid of the conservative-dominated rotten boroughs. Indeed, it was in opposition to the privileges of the landed aristocracy and the intransigence of the Tories with respect to most forms of change that liberalism emerged. Liberalism then remained as a principal source of opposition to conservatism until socialism proved itself an even greater threat to liberty and these liberals found themselves, often without much enthusiasm, supporting the Tories. The situation in the USA was somewhat different. There, liberalism was enshrined in the US Constitution and was, therefore, traditional in the same way that Conservatism was traditional in Britain.

But, as Hayek wrote, it would be incorrect to see these “classical” liberals as occupying the middle position between the socialists on the one side and conservatives on the other side. As far as the conservatives and socialists represent the diminishment of personal liberty and the growth of the power of the state, “classical” liberals find themselves in opposition to both. In that sense, the imaginary political diagram is not linear, but triangular, with “classical” liberals occupying a very distinct corner of their own.<sup>3</sup> When it comes to the former, the “classical” liberals welcome evolutionary change and trust social forces to arrive at best outcomes in a spontaneous manner. Conservatism, conversely, could well be defined, in the way Lord Hugh Cecil did, as “a disposition averse from change; [springing] partly from the distrust of the unknown”.<sup>4</sup> Likewise, the “classical” liberals oppose the patronising air of the conservatives and their willingness to use the enforcing power of the state in order to assert their own moral and ethical preferences. Instead

of the moral absolutism that conservatives possess, a “classical” liberal relies on principles, which enable him to cooperate with people of very different moral convictions. Crucial, here, is the principle of individual autonomy and a sense that human behaviour, even if unpleasant, must be respected, provided, of course, that it does not harm others. But, it is precisely because the conservative has a sense of moral superiority and a missionary zeal to convert others that he is opposed to the limitation of the state’s interference in private lives. Like the socialists, conservatives too are fond of big government. It enables them to further their cause. Moreover, because of their opposition to individualism, the conservatives are also opposed to the internationalism of the “classical” liberals. The allegiance of a conservative is towards his state or his nation, while the allegiance of the “classical” liberal is towards his principles and others who share them.

With regard to the latter, there is little that the “classical” and “modern” liberals have in common. In Britain, the term “liberal” was expropriated by statists of very illiberal tendencies and has ceased to have its “classical” meaning at least since the time of Lloyd-George.<sup>5</sup> Instead, it came to resemble liberalism of the Continental type. In a sense, therefore, British liberalism has abandoned the very particular route chosen by Smith and Hume at the height of the Enlightenment. Smith and Hume saw the value of liberalism in continuously contributing to the growing store of man’s knowledge and subsequent betterment of his condition. In their minds, reason militated against an assumption of the possibility of perfect knowledge and, importantly, perfection in human affairs. Reason, in other words, dictated uncertainty and evolution. The route taken by the Continental philosophers, on the other hand, was characterised by blind belief in human reason as a means to perfection in the acquisition of knowledge and human affairs. The proponents of the Continental type

of “liberalism” reasoned in absolute terms. Whatever the outcome of reasoning, it was to be followed or even precipitated, so long as it was reasonable. And, because it was reasonable, opposition was useless, discouraged or even prohibited. Both, Communism and Nazism have their roots in this continental liberalism and the belief that all must be subjected towards reaching a particular, reasonable, goal. And it is with respect to these two philosophies and their modern transmutations that liberalism became so thoroughly illiberal in its treatment of individuals and of liberty. The fact that the statist and social engineers have appropriated for themselves the word “liberal” changes nothing about their disregard for basic tenets of liberalism.

## II. Moral Libertarianism

*The main merit of individualism which Adam Smith and his contemporaries advocated is that it is a system under which bad men can do least harm. It is a social system which does not depend for its functioning on our finding of good men for running it, or on men becoming better than they now are, but which makes use of men in all their given variety and complexity, sometimes good and sometimes bad, sometimes intelligent and, more often stupid.*<sup>6</sup>

- F. von Hayek

The theory that claims to defend the lost focus on liberty is libertarianism. All libertarians agree in the primacy of liberty. They agree that liberty is a “good” thing and they agree that it should be maximised. Their reasons “why” this should be so are, however, profoundly different. One group of libertarians, the consequentialists,

believes that it is enough to show that people are “happier” and more prosperous living in a free society. Other libertarians, the moralists, agree with the consequentialists that people are “happier” and more prosperous in a free society, but maintain that this is not enough. They believe that the initiation of force by one person against another, to coerce them into doing something they would otherwise refuse to do, is morally wrong in and of itself, regardless the consequences. For the moralists, in other words, freedom is not simply an arrangement producing the best possible result; it is, as Bradford argues, an arrangement based in “objective morality”. Of course, consequentialist libertarians are also opposed to the initiation of violence, but non-coercion is not “the” principle from which all just social arrangement must be derived.

Perhaps the best-known proponents of the moralist libertarianism are Rand, Rothbard, and Nozick. In her novels as well as in her non-fictional writings, Rand defended a notion that the initiation of force on anyone is immoral in and of itself.<sup>7</sup> In the economic sphere, Rand supported the free market and defended egoism as an ethical theory where self-interest served as a foundation of morality itself. In the days of Communism and Nazism, her principles were in stark contrast with socially predominant morality of selflessness, altruism and, ultimately, self-sacrifice. Rand’s literary utopia was populated by a super-rational god-like set of characters, behaving according to an unshakable set of ethical principles. Rand herself accepted that her heroes’ and heroines’ seclusion from the pressures and necessities of social life was divorced from the reality of human existence, but this disregard for differences between the ideal and the real permeated her thought. For example, in her effort to defend man’s independence from society, Rand’s heroine in *Atlas Shrugged*, Dagny Taggart, says that she only envies one man; he who said, “The public be damned”.<sup>8</sup>

But this is precisely what a capitalist cannot do. The sole reason why capitalism is the most successful economic system in history is its ability to deliver that which the public wants. Indeed, the only system so far that has produced goods irrespective of the public desire for them was Communism - the very system that Rand spent her life opposing. Then, without realising the obvious contradiction, Dagny Taggart goes on to say that the revolutionary invention of John Galt, another of Rand's characters, will bring great benefits to mankind. Far from being an independent agent, the work of a capitalist is the slave of the people who purchase the fruits of his work.<sup>9</sup>

Like Rand, Rothbard also based his arguments on the theory of natural rights alone. In Rothbard's view, a person owns his own body and his natural talents, which he then puts to use as he sees fit and, of course, so long as he does not infringe upon the right of others to the same. If, then, a person does in fact acquire material or intellectual property by mixing his labour with it, it is properly his and can only be taken away from him with his consent. These rights, Rothbard states, are absolute.<sup>10</sup> But, what happens to Rothbard's reasoning *in extremis*? Being chased by a bear, would A be justified to break into a mountain cabin to save his life? Clearly, natural rights must eventually turn to consequentialism. Rothbard himself seemed to have accepted this when he defended freedom on a distinctly consequentialist grounds. As he wrote, liberty is "vitally necessary for each man's survival and prosperity that he be free to learn, choose, develop his faculties, and act upon his knowledge and values".<sup>11</sup>

Similarly, Nozick followed Kant's assertion that individuals are ends in themselves and that the utilitarian treatment of individuals as means to an end is unacceptable. He argued that there could not be a justified sacrifice of one on behalf of others.<sup>12</sup> In practice, the only legitimate function of the state is its protection of

individual rights from violation by other individuals. Nozick's rights are given or natural and are, therefore, left undefended. But, like others, Nozick accepted that in the case of emergency the absolutism particular to natural right theories might have to be compromised. Another problem with rights-based theory is that it substitutes intuition for empirical research and reasoning. As Glendon argued, "rights talk" debases political discussion. Demands issued as a matter of "right" portrays opponents not simply as mistaken, but also as immoral. Rights talk also obstructs the democratic process of public deliberation and public justification and destroys the possibility of the emergence of mutually acceptable solutions; it is derisive of precedent and custom and results in politicisation of life and amplification of litigiousness.<sup>13</sup>

Of course, despite these shortcomings, the reason for the emphasis on natural rights is obvious. A person concerned merely with consequences may well conclude that, on some occasions, state intervention is desirable and beneficial. This is, in fact, a position reached by Milton Friedman, who reportedly stated that he could imagine supporting socialism if he were convinced that it increased prosperity and happiness.<sup>14</sup> This, Rand and others must have feared, is a slippery slope argument, the final destination of which could well be not the free society they hoped for, but the Soviet Gulag. As Rand stated about the one pre-eminent consequentialist of her time, "As an example of our most pernicious enemy, I would name Hayek. That one is real poison... [He is of the] kind who do more good to the communist cause than ours".<sup>15</sup> However, the fact that the state has been hugely oppressive during the course of the last century and beyond does not mean that the state is incapable of doing good. Though it is true that libertarians believe that, generally speaking, state intervention is harmful and that the market could take over most of the roles of the



state and do a better job, moral libertarians fail to make a case for saying that all actions of the state must be harmful in their consequences *per se*. Similarly, they are incapable of proving that all would be well without the state. As Steele writes, the coincidence of natural rights automatically leading to best consequences is too good to be true. There may arise a problem with which the market will not be able to deal.<sup>16</sup>

To be sure, few things are perfect. Even laws of nature that taken for granted every day may, in very special circumstances, fail. No example illustrates this better than Newton's laws of physics, which are applicable to 99.9% of all things human beings do on earth. Yet, as Einstein's Theory of Relativity illustrates, these laws are deficient at immense speeds like, for example, inter-stellar travel. The same goes for the theory of moral libertarianism. It might be of great intellectual interest to ask hypothetical, *in extremis*, questions. But, as Rand had argued, it might be wiser not to base ethics on "lifeboat situations", if for no other reason, then because people do not live in them. It might well be the case that those who find liberty worth preserving will find moral libertarianism a perfectly appropriate way to conduct their affairs in day-to-day situations and only question it when, during war or pestilence normal rules of conduct are suspended.<sup>17</sup> Moral libertarianism, therefore, is not in worse shape than other universal and rights-based moral theories.

Importantly, however, there are practical problems arising out of moral libertarianism that are as, if not more, important. Moral libertarianism encourages the emergence of dogmas rather than dialogue. People who fear the responsibility that arises from freedom, for example, may be more comfortable believing that there is someone or something that will take care of them. Libertarians may feel that nationalised healthcare is inferior to private healthcare, but clearly there are many,

who are satisfied with it. Moreover, proposals such as privatisation of the police force seem incredible if argued for only from the moral perspective. That is not to say that there is no case for the privatisation of policing. As contemporary South Africa shows, private policing may sometimes be the only answer to raising levels of crime. This, however, is not a moral argument. Thus, as Bradford writes, "If invoking the non-aggression imperative fails to convince and, worse, ends dialogue altogether, then perhaps we should try another approach".<sup>18</sup>

### III. Consequentialist Libertarianism

*A society that puts equality... ahead of freedom will end up with neither.*<sup>19</sup>

- Milton Friedman

The alternative approach is consequentialist libertarianism. This approach is not based on an absolute principle, but on the assertion that practical application of libertarianism increases utility. The process, in other words, is reversed. Liberty and non-coercion is not an origin, but an outcome of both intellectual process and empirical experimentation. Indeed, moral libertarianism has been in decline for some time. In a Liberty magazine poll of 1988, only 10% of libertarians disagreed with Rand's view of the non-permissibility of coercion. By 1998, this number rose five-fold. The same survey showed increasing support for the consequentialist type of libertarianism.

The difference between the two types of libertarianism, then, maybe illustrated with an example of minimal wages. A moralist's opposition to it is based on the principle of non-coercion principle. A moral libertarian will argue that

minimum wage laws infringe on the freedom of an employer who purchases labour below a government-mandated price. By threatening to send him to prison for breaking of the law, the state initiates force and this is wrong. Most people will not really care for the right of the businessman to pay what the skilful propagandist will immediately label an “unsatisfactory” or even “unfair” wage. A consequentialist, on the other hand, will argue his point differently. “The purpose of a minimum wage law is to raise the wages of people near the bottom of the wage scale”, one consequentialist philosopher says,

But the effect of minimum wage law is quite different: while it may raise the wages of a few low-paid people, it will raise the cost of hiring low-skilled people to a level at which many business owners will either no longer be able to operate profitably, and thus go out of business, or will replace the low-skilled employee with a piece of automated equipment. The net effect is to increase unemployment among the marginally skilled. Is that what you really want to do?<sup>20</sup>

And so, a consequentialist claims that rights are themselves never foundational, but rather, as one philosopher claims “intermediaries between claims about human interests that are vital to well-being and claims about obligations it is reasonable to impose on others in respect of these interests”. Rights, in other words, “gain their content from the requirements of human well-being – and they will be variable as the demands of human well-being vary.”<sup>21</sup> Of course, what human well-being is or ought to be is debatable. But, even the staunchest defenders of liberty, like Epstein, von Mises and Hazlitt find grounds for natural rights in utilitarianism.<sup>22</sup> Does this mean

that consequentialist libertarianism is entirely amoral? Consequentialists do, after all, claim to uphold certain ethical precepts that have been proven over time and not, as is the case with modern liberalism, in short-term expediency. Of course, it is here that social evolution enters the equation, for it is this evolutionary vision of social development that provides the consequentialists with the ability to account for change. But, they argue, change of principle, whatever this may be, must happen “naturally”. This means is that there is no “external standpoint of pure reason or pure intuition from which... [these principles] can sweepingly be called into question and replaced by newly invented ones”.<sup>23</sup> This apparent contradiction between consequentialist emphases on results on the one hand and their adherence to certain ethical principles on the other hand will be discussed below.

What, then, is to be said of libertarianism and both its strands? As Lemieux argues, the feasibility of libertarianism should not rest in the ability of libertarians to come up with a defensible theory of natural rights. After all, after 2500 years of moral and political philosophy, “there is still no agreement on whether natural rights exist, let alone on what they are”. There are, of course, many plausible accounts as to what natural rights “are” and how they came about. But, none of these accounts resolves the Humean conundrum between what “is” and what “ought” to be. Moreover, it seems impossible to be certain that any rights exist objectively, without “subjective preference”. On the other hand, ethically self-sufficient consequentialism seems equally impossible. Even the consequentialist basis of market economics, Lemieux points out, “requires some ethical foundation, if only the assignment of moral value to individual preferences”. Obviously, the complexity of the problem of consequentialist ethics is further magnified, since not all individual preferences are seen as acceptable. Murder, for example, is condemned as unambiguously wrong.

But, why should the murderer's pleasure carry no moral weight in evaluating his action? Clearly some things are *just* wrong.<sup>24</sup>

#### IV. Moral Defence of Capitalism:

##### The Austrian View on the Role of the Entrepreneur

*It seems... that libertarian political theory cannot be based on a pure, non-consequentialist, conception of individual rights; and, yet, that a consequentialist or utilitarian theory needs an ethical substratum. Even if no 'natural rights' exist, the claim would remain that morality is inseparable from human nature; but consequences also matter. Thus, consideration of both morals and consequences appears necessary for a defence of liberty.*<sup>25</sup>

- Pierre Lemieux

In Atlas Shrugged, Rand described a world where entrepreneurs went on strike. In that way she turned on its head the common image of employees striking against what they often see as unfair working conditions and the like. The novel, on the other hand, saw the entrepreneurs escaping the world of high taxation and constant moral degradation. The novel shows the result of this "strike"; the end of progress, of discovery and economic collapse resulting in joblessness and poverty. In Rand's mind, the entrepreneur was the engine of society. He was the one taking the risk of turning ideas into something valuable, thus creating employment and prosperity in the process. The entrepreneur was acting, as Adam Smith had described, in his own self-interest. By pursuing his interests he has earned for himself great rewards, but he also benefited humanity beyond anything that he would ever earn. A good example

of such an entrepreneur is Bill Gates. Gates' private fortune is tremendous; at the turn of the century, his wealth was estimated at \$100 billion. But, is it not true that the world has benefited from Gates' work much more than he himself has? Is it not true that the increased efficiency in speed of communication, the dissemination of knowledge and the creation of a new industry employing millions of people around the world is worth more than \$100 billion? And, this is the point that Rand was making. Her heroes, like Hank Rearden and Francisco D'Anconia, were but idealisations of thousands of entrepreneurs scattered across the globe, making up the motor that moves the world forward. They formed a very elite group of men and women of unquestionable talent, intelligence and hard work. As such, they stood in stark contrast to those in society whose primary concern was not to create wealth, but to "distribute" it. Rand's novel did have an obvious philosophical or moral undercurrent. But, Rand had failed to transform it into a convincing and defensible theory. That role was left to Israel Kirzner.

Kirzner rejected the notion that price theory should be "seen as primarily concerned with the configuration of prices and quantities that satisfies the conditions for equilibrium". Instead, he argued, people ought to "understand how the decisions of individual participants in the market interact to generate the market forces which compel changes in prices, in outputs, and in methods of production and the allocation of resources".<sup>26</sup> Of course, the weaknesses of the general competitive equilibrium has been recognised for some time and its assumptions of perfect knowledge, zero transaction costs, multiplicity of buyers and sellers and so on questioned. But, they did have an important moral outcome. As De Soto observed, much of consequentialism is rationalistic in a sense that it sees human action determined by maximising behaviour of men concerned with the costs and benefits of their actions.

This rationality can then serve as the basis of a system where consequences replace concerns with justice, ethics and so on. But, concern with consequences *alone* is fundamentally flawed. In economic theory, to give an example, it is clearly not possible to predict the costs and benefits of every action. The assumption of a perfect knowledge of human behaviour and, consequently, human need is, after all, central to the failure of the socialist system to provide the people with even the most basic commodities. Similarly, a purely consequentialist approach to politics has also been discredited by communism. Thus, as de Soto writes,

[If] a person holds that it is possible to make an economic decision solely on the basis of cost-benefit analysis because all the necessary information is statistically given, then it is not only unnecessary for individual actors to follow any moral code but it is difficult to avoid the conclusion that any scheme of equity imposed by force is compatible with the criteria of Paretian efficiency [which is] the second fundamental theorem of welfare economics.<sup>27</sup>

Thus, pure consequentialist faces a dilemma arising out of the neoclassical understanding of economics. Neo-classical economic assumptions, unrealistic though they are, make cost-benefit analysis possible and contribute to the notion that utility maximisation can replace concerns of a moral and ethical nature – such as, for example, placing people in a Gulag for the greater good of the community. Moreover, because of its assumption of perfect knowledge, the neoclassical economic model does not allow for the possibility of individual input beyond the individual's utilisation of that readily available knowledge. Of course, once it is

accepted that the individual has contributed to the productive process nothing but utilisation of this readily available knowledge, the separation of production and distribution becomes possible. It is, therefore, no wonder that J. S. Mill was both the father of consequentialism and the first economist to assert the possibility of separation of production and distribution.

To put it differently, because economic agents, such as businessman, are mistakenly assumed to do nothing but act on a price that is already given and known, they do not fulfil the requirements of desert and thus abrogate much of their moral claim to the awards originating in production. In fact, this view is widespread. Both Nazis and Communists claimed that entrepreneurs and businessmen were parasites, precisely because they failed to appreciate that entrepreneurs engage in an irreplaceable process of discovery. Similarly, the proponents of “distributive justice” do not see, as Nozick has pointed out, that produce comes with entitlements already attached.<sup>28</sup> Thus, they wish to “redistribute” the social pie in accordance with some plan. But, capitalism does not have a central “re-distributing” agency. As Hayek wrote,

[In] a system in which each is allowed to use his knowledge for his own purposes the concept of ‘social [or distributive] justice’ is necessarily empty and meaningless, because in it nobody’s will can determine the relative incomes of the different people, or prevent that they be partly dependent on accident. ‘Social Justice’ can be given a meaning only in a directed or ‘command economy’... in which the individuals are ordered what to do...<sup>29</sup>



Incomes in capitalism are determined impersonally, through the interaction of millions of market participants. Incomes, in other words, arise *simultaneously* with the market process.<sup>30</sup> And yet, this is not enough. Both Misses and Hayek were, for lack of a better term, consequentialists. Yes, they were able to show that “redistribution” made no sense under capitalism; only a socialist economy could have such a goal. But, this is not the same as showing that capitalism itself is moral. After all, a critic could easily retort that capitalism, although more efficient, is undesirable precisely because of its immorality. This accusation, Kirzner clearly believes, springs from misunderstanding the nature and mode of operation of capitalism.<sup>31</sup> The social pie is created during a process of discovery, where a fog of ignorance surrounds the participants in the market process. They do not, in other words, possess the perfect knowledge that neo-classical economics assumes they have. The free market, however, provides incentives that dispel this fog. In this Austrian or “dynamic” economic model, an entrepreneur decides to take an action according to what he does not certainly know, but believes to be profitable. His alertness and his resourcefulness to the possibilities that surround him are vital, or the opportunities will be missed.<sup>32</sup> The aggregate result of these instances of alertness or “social pie” thus becomes a product of the entrepreneur. There is nothing predetermined about it. A producer creates the product *ex nihilo*, using no given input but his ability.<sup>33</sup>

Of course, ability is unevenly distributed and it should, therefore, not be assumed that its fruits ought to be distributed evenly either. But, Kirzner’s finders-keepers ethic does have profound implications vis-à-vis larger-than-individual discoveries. European exploitation of South African and Namibian diamond and gold mines, just like the European mining of copper in Zambia, are often used as the

moral basis of an argument for reparation. These views are clearly incorrect. Gold, diamonds, copper, and most other natural resources that the Europeans utilised have been available to the native populations of the colonies since the beginning of time. As is well known, the Orange River erodes its bedrock and carries diamonds onto the Atlantic beaches of South Africa and Namibia, where they are currently still collected. It is, therefore, reasonable to suppose that for millennia African fishermen literally walked over them, without having the slightest idea about diamonds' potential uses. In Europe, on the other hand, diamonds were used decoratively as well as industrially. In Africa, a diamond was useless, but in Amsterdam it was worth a lot of money. Its value was clearly determined by its applications – applications that the Europeans were alert enough to recognise. The diamond trade is, therefore, a very concrete example of how production in the real world involves discovery.<sup>34</sup> There is nothing “given” about it. Quite the contrary, wealth arises out of alertness and, of course, luck. Discovery leads to profit and great discoveries lead to great profits. As Albert von Szent-Györgyi reportedly said, “Discovery consists of seeing what everybody has seen and thinking what nobody has thought”. The “static” or neo-classical economic model, on the other hand, sees a world in which there is very little space for the moral defence of profit-making. As Kirzner writes

Analytical models yielded by these [neo-classical] simplifications are peopled, in effect, by efficient decision makers each of whom is supremely untroubled by any doubts or uncertainties concerning the future, knowing, in particular, exactly what decisions other market participants are making, and moving in unerring fashion to select the respective best positions made available by the relevant environment.

In these models there is no possibility for pure profit – since omniscient market participants cannot be imagined to have irrationally permitted unexplained and unjustified price differentials to have prevailed.<sup>35</sup>

But, if profit emerges under dynamic or Austrian conditions, then improvements arising out of this process of discovery end in justifiable profit. Profit, in other words, becomes an incentive for discovery.<sup>36</sup> But, Kirzner does ignore, as he himself admits, the initial redistribution of resources.<sup>37</sup> Undoubtedly, Kirzner assumes that in cases of theft or coercion, reparation is not only to be welcomed but also necessary. But, as has been shown, a clear distinction between misfortune that has resulted out of natural and man-made causes must be made. This is a problem central to the discussion of two concepts of liberty. As has been explained, a departure from compensation based on man-made crimes only, leads to increasing infringements on liberty. Rawls' A Theory of Justice, at least in its original form, is different. As Rawls has argued, the over-achievers' position in society depends on a number of endowments that have been arbitrarily and, therefore, unjustly, distributed. As such, Rawls' theory has often provided the moral base for arguing that "redistribution" is justifiable in order to correct the discrepancies arising unjustly from the moral arbitrariness of birth. In other words, as Rawls would have it, "redistribution" is defensible to correct nature-caused discrepancies as well.

## V. The Question of Desert:

### Observations on Rawls' A Theory of Justice

*Equality before the law is... incompatible with any activity of the government deliberately aiming at material and substantive equality of different people, and that any policy aiming at a substantive ideal of distributive justice must lead to a destruction of the Rule of Law. To produce the same result for different people it is necessary to treat them differently. To give different people the same objective opportunities is not to give them the same subjective chance. It cannot be denied that the Rule of Law produces economic inequality – all that can be claimed for it is that this inequality is not designed to affect particular people in a particular way. It is very significant and characteristic that socialists (and Nazis) have always protested against “merely” formal justice, that they have always objected to a law which had no views on how well off particular people ought to be...<sup>38</sup>*

- F. von Hayek

Rawls' theory is one of social contract. The guiding idea behind the contract is “justice as fairness”; a position arrived at by logical reasoning by independent and self-interested actors.<sup>39</sup> This reasoning, he continues, happens behind the veil of ignorance, where the participants are unaware of their future status in a society. Not knowing what sort of endowments they are going to end up with, the participants naturally opt for an egalitarian distribution of resources.<sup>40</sup> But, as Flew comments, the purpose of the veil of ignorance is to turn self-interested actors into “reliable moral judges”.<sup>41</sup> Thus, it must be assumed that an agreement on a first principle would be a moral one, rendering the equality of all social goods *absolute*. Thus,

Rawls begins from a position of ultra-egalitarianism, which he then modifies by stating “Inequalities are permissible when they maximise, or at least all contribute to, the long-term expectations of the least fortunate group in society”.<sup>42</sup> So, Rawls believes, out of the original position two principles would emerge; the first guaranteeing everyone equal liberty through equal distribution of resources and the second, he calls it “maximin”, tolerating economic inequalities only when these contribute to the well being of the least fortunate.

And yet, it seems that Rawls’ argument is incoherent. If justice is, as he says, of moral or “uncompromising” nature, then trade-offs between it and, for example, economic efficiency are impermissible.<sup>43</sup> Thus, “If justice does entitle everyone to an equal share of all (social) goods, then one can and must immediately infer one universal right and one universal duty: the human right never to be exceeded, and the human duty never to exceed”. In other words, if in the process of becoming better off A gets more than B, B’s human right was violated through A’s violation of his human duty. The only solution to this dilemma, Flew writes, is the one articulated by Gracchus Babeuf. When defending himself against indictment arising out of the Conspiracy of the Equals, Babeuf stated, “Society must be made to operate in such a way that it eradicates once and for all the desire of a man to become richer, or wiser, or more powerful than others”.<sup>44</sup>

Similarly, there is Rawls’ proposition according to which policies ought to be rejected if they do not benefit the worst off. As Sowell points out, this philosophical stance is ludicrous, for it implies that even policy that may make millions of people better off can be vetoed by a group of those, no matter how small, to whom the benefits of such a policy do not apply. Thus, essentially, the entire society is forced to be worse off as the more able individuals and groups are forced to suffer at the

expense of the less able individuals and groups.<sup>45</sup> Needless to say, this goes against the fundamental liberal principle of individualism, which expects that individuals are treated on the basis of the merit of their actions and not, as Rawls envisages it, on the basis of their belonging to a particular group.

There are other serious implications of Rawls' work. Whether he realises it or not, his image of the "just" future could only be guaranteed by an enormously powerful and intrusive state apparatus – a fact that would be incompatible with the conventional understanding of liberty. A world would have to be swept clean.<sup>46</sup> After all, as Rawls himself says, "Once we decide to look for a conception of justice that nullifies the accidents of natural endowment and the contingencies of social circumstance as counters in the quest for political and economic advantage, we are led to these principles. They express the result of leaving aside those aspects of the social world that seem arbitrary from the moral point of view".<sup>47</sup> But, is it really possible to have a theory of justice where "deserts" – the distribution of which is what justice is, after all, about – cannot be grounded in facts about the people who claim them?<sup>48</sup>

Of course, if it is accepted that some, and perhaps most, differences between people are caused by the unequal distribution of natural endowments, then there arises Rawls' assertion that natural endowments, being distributed in a morally arbitrary fashion, are no basis for distribution. He writes, it is "one of the fixed points of our considered judgements that no one deserves his place in the distribution of natural endowments, any more than one deserves one's initial starting place in society".<sup>49</sup> If Rawls' argument stands, rectification of differences between people through "progressive" taxation and discrimination in admission to universities can be seen as acceptable. Importantly, it is perfectly possible that lack of other socially

desirable attributes, such as beauty, height and intelligence will have to be compensated for. Indeed, once Rawls' idea concerning natural endowments is taken up, there seems to be no easily discernible natural boundary, maximin included, for the ostensibly equalising social interference.

Of course, much depends on how the notion of desert is understood. Rawls, it seems, understands desert in a way that implies that to deserve X, every input A appeals to as a basis for his claim to that X has to be deserved. However, since everything A does contains arbitrary elements, nothing can really be said to be deserved – ever.<sup>50</sup> In addition, much of what A does happens in interaction with his internal features, such as character, talent and so on. Such features cannot all be morally arbitrary, for if character and other internal characteristics are morally arbitrary, what are they morally arbitrary in comparison to? If internal human characteristics do not matter, what does?<sup>51</sup> Walzer writes,

[The] ...capacity to make an effort or to endure pain is, like all their other capacities, only the arbitrary gift of nature or nurture. But this is an odd argument, for while its purpose is to leave us with persons of equal entitlement, it is hard to see that it leaves us with persons at all. How are we to conceive of these men and women once we have come to view their capacities and achievements as accidental accessories, like hats and coats they just happen to be wearing? How, indeed, are they to conceive of themselves?<sup>52</sup>

Similarly, Gauthier objects, "We may agree with Rawls that no one deserves her natural capacities. Being the person one is, is not a matter of desert."<sup>53</sup> Hayek too

accepts that arbitrary nature of distribution of natural endowments, but argues, “[It] is neither desirable nor practicable to ask basic structure to distribute according to desert”.<sup>54</sup> This is so, because as he sees it, the concept of justice can only apply to a relationship between men.

Schmidtz makes a very different argument. Desert, he argues, is traditionally understood in remunerative and retrospective terms. Thus, Rachels argues, “What people deserve always depends on what they have done in the past”.<sup>55</sup> Similarly, Miller writes, “desert judgements are justified on the basis of past and present facts about individuals, never on the basis of states of affairs to be created in the future”.<sup>56</sup> Thus, when talking about desert, it is asked, “Has A done enough prior to receiving X to deserve X qua reward?” Clearly, the expectation is that unless A has done enough, his reception of X was undeserved and his remuneration for services unearned. Conversely, if he has done enough, his reception of X was deserved.

Yet, even if this retrospective view of desert is accepted, it still needs to be asked, “Retrospective from where?” Some might look back at A year from the time when he received X and ask, “Did he deserve the opportunity given to him?” In doing so, the question is still retrospective, but retrospective to A’s actions after A has received X. In that sense, of course, A can be said to have deserved the opportunity given to him. What matters, in other words, is whether A has or has not wasted the opportunities given to him.<sup>57</sup> In this sense, of course, desert stops being a reward or remuneration for services rendered. Instead, it becomes an opportunity to prove his worth. Thus, Schmidtz writes,

[Retrospective] statements overlook an important, perhaps even the most important, category of desert-making relation. Even when action



is needed to forge a connection between outcome and internal features, the action need not precede the outcome. In particular, we have not yet done anything to deserve our natural endowments at the moment of our birth, but that need not matter. What matters, if anything at all matters, is what we do after the fact.<sup>58</sup>

Returning to A, it may be asked, “Has A done enough after receiving X to have deserved X qua opportunity?” After all, if X no longer is understood as a reward, but as an opportunity, then it may be that at least sometimes Schmidt’s “prospective” view is one that matters. Clearly, therefore, “retrospection” is unnecessary to the conception of desert. Thus, an employee who has been promised a lucrative contract may promise “to work hard in order to deserve it”. Few would think of such promise as paradoxical.<sup>59</sup>

Of course, to understand desert in these terms does pose serious problems for Rawls’ theory. Indeed, Rawls himself seems to have changed his view in his revised edition of A Theory of Justice. There he added, “To be sure, the more advantaged have a right to their natural assets, as does everyone else; this right is covered by the first principle under the basic liberty protecting the integrity of the person”.<sup>60</sup>

## VI. Primacy of (Negative) Liberty: Scottish Enlightenment Revisited

*Throughout history orators and poets have extolled liberty, but no one has told us why liberty is so important. Our attitude towards such matters should depend on whether we consider civilisation as fixed or advancing... In an advancing society, any restriction on liberty reduces the number of things tried and so reduces the rate of progress. In such a society freedom of action is granted to the individual, not because it gives him greater satisfaction but because if allowed to go his own way he will on the average serve the rest of us better than under any orders we know how to give.<sup>61</sup>*

- H. B. Phillips

Kirzner's theory has implications beyond the moral defence of capitalist profit-making. Firstly, Kirzner's theory offers a profound critique of the welfare state. Welfare economics, which provide the most widely accepted justification for state intervention in the market economy, is based on the neo-classical assumption "that all the relevant information concerning preferences and production techniques is known and given. The economic problem, under such circumstances, is a simple mathematical problem of employing the right means to obtain the appropriate end".<sup>62</sup> It follows that economic policies in welfare states are often seen as rectifying the "shortcomings" of the free market in dealing with these economic problems. If, in other words, the free market fails to fulfil the expectations of those economists who deal with the problems of provision of healthcare or welfare as though all the information has been given, the free market is seen as failing to deliver and the government is asked to step in to correct the "injustice". Kirzner's "dynamic" or

Austrian economic model, on the other hand, argues that this approach to the provision of welfare and healthcare is flawed, because the assumptions that neo-classical model entertains, are unreal. The knowledge necessary for a delivery of what may be called “public” services is simply unavailable to anyone individual or group in its totality.<sup>63</sup> Instead, Kirzner argues, the free market should be utilised “as a social instrument for mobilizing all the bits of knowledge scattered throughout the economy”.<sup>64</sup> Indeed, only the market will allow the economic agents to “discover” the knowledge needed for the kind of coordination of different healthcare and welfare providers that the neo-classical model fails to achieve because of its presumption of complete knowledge.<sup>65</sup> Thus, Kirzner writes,

The world of market equilibrium cannot be judged on its success in coordinating scattered dribblets of information; ignorance is simply assumed not to exist. For such a world it is only natural to expect welfare analysis to be confined to an appraisal of how closely it approximates the conditions for optimality... [The] success of a system is to be measured by its capacity to coordinate the innumerable individual decisions, plans and actions that will be made independently in society during a given period of time.<sup>66</sup>

The practical advantage of the Austrian conception of economics, therefore, is one of knowledge discovery. Unlike the usual approach, which “suggests that things about which men are completely ignorant are things that, in the sense relevant to economic theory, simply do not exist”, Kirzner’s vision brings the “attention precisely to the existence of opportunities for the acquisitions of knowledge about which no one

knows".<sup>67</sup> Of course, the institutions that characterise the free market, such as the laws of supply and demand and, concomitantly, fluctuating prices, losses and profits "serve as guideposts to individual decision making". They are, as Mises referred to them "indispensable aids to the human mind".<sup>68</sup> As Kirzner again states, "I contend that the market performs a crucial function in discovering knowledge nobody knows exists; that an understanding of the true character of the market process depends, indeed, on recognizing this crucial function".<sup>69</sup> This fundamental point is in need of re-emphasising and Boettke's summary of the Austrian position is of great help.

[Attempts]... to rationally control the economic system are necessarily irrational because the knowledge necessary for economic coordination is not known to any one mind or group of minds. The competitive market process systematically allows for the discovery and utilization of the knowledge required for economic coordination. The rivalrous competition of market participants generates and reveals the appropriate economic knowledge. Interference with that process, on the other hand, results in the disappointment of the plans and purposes of the interveners themselves. This disappointment of the interveners plans does not result in an abandonment of interventionist policies, but, instead, leads to continued attempts by statist at [more] economic control... Nevertheless, the point stands; assuming that the government official was seeking to improve economic conditions in the name of the public interest, economic analysis demonstrates that interfering with the competitive market process produces results that are contrary to the betterment of the public. This is not limited to the

recognition of the problems with wage and price controls that is part of every economist's training, but applies to *all* areas of government interference with the market process. From taxation to Keynesian fine-tuning, the economic result is the same: interventionism leads to destruction of economic well-being and loss of human freedom.<sup>70</sup>

It will, therefore, come as no surprise that the reasons for the primacy of negative liberty are rooted in the distinction observed in the first chapter of this thesis. The struggle for a betterment of human condition has been preoccupying scholars ever since antiquity. It should be clear now that there are ways of doing this; one successful and the other one damaging. On the one hand there is the evolutionary and retrospective view of Hume, Smith and Hayek. This vision draws a comparison between the current state of humanity and the state that preceded it. Thomas Sowell called this vision a "tragic" one, not because it is unbearable, but because it understands that man's nature prevents him from attaining perfection. The tragic vision does not attempt to change this nature. It is understood that to do so would involve an intolerable cost to human freedom and ultimately fail. Those who believe that differences and inequalities cannot be eliminated through social engineering also tend to embrace the free market as a complementary economic arrangement. The free market distribution of wealth generally tends toward an outcome whereby the parties most endowed with the qualities that enable them to succeed in the market place, such as alertness, innovativeness and determination receive the largest rewards. Of course, in this system, the inegalitarian distribution of endowments amongst individuals and groups acquires an increased prominence and visibility. After all, its functioning and efficacy are based upon those very same endowments. Consequently, the free market is

a thorn in the heel of the social engineers. However, bearing the Soviet experience in mind, it seems undeniable that the free market serves better than any other system to discover the knowledge necessary for the smooth functioning of any society. Only in a system that is open to change through competition of ideas, can this sort of intellectual social Darwinism produce the best possible results.

It will come as no surprise that the scholars most opposed to the concept of natural inequalities are also the ones most disparaging of the free market economy. Those who favour social engineering as a solution to the problem of inequality, also tend to favour an economic system that either prevents innate inequalities from arising or reduces them through “redistribution”. This second way towards the betterment of the human condition is misguided and the last century provides ample evidence to support such claim. The suffering that the egalitarian philosophies of Nazism and Communism inflicted on mankind bear witness to the cost involved in attempting to change humanity and to achieve an egalitarian arrangement in a world that is spectacularly diverse. At the centre of the egalitarian failure is the search for a “perfect” society. Instead of looking back, the thinkers on the left look to the future. They ignore the improvements humanity has made in its evolution and instead focus on comparing the current state of affairs with an untried utopia. Their views manifest lack of humility – a blind belief that society can be constructed, reconstructed, moulded and remoulded according to a preset plan. At the centre of this confusion is their inability to understand that acquisition of perfect knowledge is impossible; that human action as well as its consequences is very difficult to predict. The notion that freedom might be necessary in order to allow the best ideas to evolve is alien to them.

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## Conclusion

*Our inquiry is not after that which is perfect, well knowing that no such thing is found among men; but we seek that human constitution which is attended with the least, or the most pardonable inconveniences.<sup>1</sup>*

*- Algernon Sidney*

Hayek's main contribution to the world of ideas was his concept of a "constructivist fallacy". According to Hayek, lack of trust in the evolutionary process forces many to believe that it is possible to construct "elaborate architectures of institutional co-operation", which will manage both society and the economy.<sup>2</sup> The problem is that even the most elaborate designs lack the capacity to take into account the innumerable number of possible inputs and outputs. No known model, in other words, can harvest the amount of information needed to predict, with certainty, a particular outcome. To compensate for this shortcoming, social engineers have to rely on making their models more and more complex. As a result of this increasing complexity many such models become impracticable, while others become normatively restrictive. In the USSR, for example, prices were determined centrally. They were based on the projected production over a period of many years. Of course, such projections were seldom correct. As a result, the Soviet economy became famous for overproduction of one commodity and underproduction of another. To put it differently, it was stupendously inefficient. In the free market system, on the other hand, prices fluctuate constantly. They depend on supply and demand, as it happens, minute after minute. In fact, it is clear now that the only generally reliable mechanism for the gathering of such huge volumes of constantly changing information is the free market price system. But, to be

reliable, it must be truly free of governmental interference and the concomitant distortions.

It is worth noting that early Marxists advocated Socialism as a way of improving efficiency.<sup>3</sup> Ultimately, this view had its roots in an inflated opinion of human reason that distinguished the Continental liberals from their more skeptical Scottish contemporaries. In the face of its utter failure to achieve the goal of efficiency, however, another defence of Socialism emerged. This was the observation that Socialism enhanced material equality. This observation is, in some ways true, but material equality among the general population has always come at the price of economic stagnation and the emergence of a ruthless and highly un-egalitarian governing elite. As Trotsky estimated in 1939, “the upper 11 or 12 percent of the Soviet population... [receive] approximately 50 percent of national income”. This inequality was greater even than that in the USA, “where the upper 10 percent of the population... [controlled in the same year] approximately 35 percent of the national income”.<sup>4</sup> Moreover, as has been mentioned in the introduction, the question of primacy of equality is seldom answered. But, if the argument can indeed be simplified to a choice between an egalitarian but materially poor society, and an un-egalitarian but materially wealthy society, the historical developments in the former Communist block indicate public preference for the latter kind of social arrangement. No doubt, the Gramscians would argue that the choices which the people of Eastern Europe and USSR have made were – despite decades of communist indoctrination – ill informed. But, what they conveniently ignore is that poverty and oppression were very real incentives for the people who lived under Socialism to rid themselves of it.

Of course, Gramscians are not alone in trying to salvage the reputation of a big state. According to a book by Sunstein and Holmes entitled The Cost of Rights: Why

Liberty Depends on Taxes, individual rights are funded by taxes and are, therefore, public goods. According to these authors, rights depend on the annual budgetary process. In other words, it is completely up to the government to decide what rights, if any, the citizens will have. Unless they pay their taxes, the people can hope for no freedom at all. By implication, the government is entitled to 100% of all national income and should it choose to extract only 99%, the remaining 1% becomes a governmental handout.<sup>5</sup> But, the right to life, to give just one example, clearly does not depend on the decisions that the politicians make when allocating money within the annual budget. As a moral concept, the right to life will not cease to exist even if no provision for its defence is made in that annual budget. The alternative view is one, where the government is seen as a servant hired by the public to perform certain duties. One of these duties is the protection of human life. The other may be the protection of private property. Taxes, in other words, should rather be seen as fees for service rendered. Where Sunstein and Holmes see the government bestowing rights on the people, others may well see the people paying the government to do a certain job.

Clearly, the above work is based on a very particular understanding of private property, including the wages that people receive. As with the Cosmopolitans, Sunstein and Holmes do not see property as coming with any rights attached. They see the fruits of human ingenuity flowing into one great reservoir of wealth, the budget, from where they are then "redistributed". In effect, these authors argue that because the politicians help to set up the rules of the free market and free society, they "somehow become entitled to what everyone produces". But, as Bovard writes, this "makes as much sense as saying that federal patent clerks deserve all the rewards for new inventions, since they approve and register new patents, or that a bank security guard is entitled to carry home armfuls of money from the vaults he guards".<sup>6</sup> Of course, egalitarian designs do

not have to stop with invasions of private property. According to Goldberger and Manski,

[A]n individual's observed IQ test score  $Y$  is the sum of her "genotype"  $Z$  and her "environment"  $U$ , so  $Y=Z+U$ . Imagine that  $Z$  and  $U$  are uncorrelated, so the variance of  $Y$  equals the variance of  $Z$  plus the variance of  $U$ :  $V(Y)=V(U)$ ... [The usual] thought experiment call[s] for equalising environments, making  $V(U)=0$ . Suppose instead that we preserve  $V(U)$  at its current value, but make  $U$  perfectly negatively correlated with  $Z$  by introducing an extreme compensatory policy. The IQ variance would fall from  $V(Y)$  ( $h^2 + e^2$ ) to  $V(Y)$  ( $h^2 + e^2 - 2he$ )= $V(Y)$  ( $h-e$ )<sup>2</sup>. So with  $h^2=0.6$  and  $e^2=0.4$ , this intervention would reduce IQ variance to  $(0.6 - 0.4)^2=2$  percent of its current value  $V(Y)$ .<sup>7</sup>

In other words, the above proposal not only requires putting all low-IQ people in an intellectually stimulating environment, but also mandates putting all high-IQ people in an intellectually depressing environment. According to this proposal, it would be justifiable to transfer high-IQ people from their affluent neighbourhoods to slums and low-IQ people to wealthy suburbs. It could mean withdrawing reading material from children with a high IQ. It could also mean transferring low-IQ children to parents with high-IQ's and high-IQ children to parents with low IQ's.<sup>8</sup> This is not very different from Plato's insistence that the creation of a utopia requires not only the abolition of private property, but also of the family as well.<sup>9</sup> He was right. Family, like private property, is un-egalitarian and selfish. In its effect, it is the

opposite of a perfect and predictable society as envisaged by generations of some of the greatest scholars in the West. Their mistake, like Plato's, was their "fascination with *a priori* reasoning, or the illusion that the manners and customs of a whole people can be transformed and perfected... that tradition and historical precedent count for nothing".<sup>10</sup> In other words, they were guilty of the constructivist fallacy.

The two ideologies that took *a priori* reasoning furthest were Communism and Nazism. In both cases, the creation of a perfect society was seen to be dependent on the achievement of equality. This was not equality before the law, however. In fact, that type of equality was quickly abandoned as an insuperable obstacle to Communist and Nazi designs. Instead, the two totalitarian ideologies wanted to achieve substantive or material equality. Of course, the goal of substantive equality was directly dependent on destruction of individual liberty and a free market economy. This was recognised as early as 1755, when the French proto-Communist Morelly "advocated the abolition of private property and with it, by necessity, of individual liberty".<sup>11</sup> In fact, soon after they came to power, both the Communists and the Nazis undermined private property rights, expanded the role of the state, and ignored the needs and desires of individuals. With their newly acquired powers, the totalitarian states proceeded to commit crimes of previously unknown proportions.

In both cases, the assumption, from which the two ideologies derived the inevitable consequences was that people are by nature equal in ability and that if this is not so, some sort of injustice must have occurred. To this day many of the discriminatory practices across the globe are based on this assumption. The Chinese in Malaysia are being discriminated against, because they have shown themselves to be too successful for their own good. In the USA, the social engineers have elevated a large number of different groups to a protected status and put in place a plethora of

discriminatory policies aimed at minimising the inequalities of outcome. Even though both logic and empirical evidence strongly contradict the assumption that “given equal opportunity all groups will perform the same”, this is exactly the premise the American social engineers are employing. But, in reality, this is no more than an assertion. Moreover, it is an assertion that flies in the face of empirical evidence. In the USSR, for example, the Kulaks, who emerged so successfully after the October Revolution, did so despite the roughly equal starting line with their fellow peasants. The Jews in the USA, like the Chinese in South-East Asia, succeeded despite discrimination.

Another premise held by the Nazis and the Communists alike was that capitalism is an immoral system that lends itself to abuse by the most ruthless and selfish members of society. The Nazi and Communist drive for substantive equality was, therefore, buttressed by the charge that the Jews and Kulaks earned their wealth by unjust means. This wealth was, therefore, often “redistributed” and its rightful owners cruelly punished. Conveniently forgotten was the fact that both groups prospered by providing the people among whom they lived with valued service. For example, Jewish lawyers, doctors and financiers were sought after throughout Europe. The same people, who would normally avoid association with the Jews because of their religious or ethnic prejudices, found their service beneficial, even invaluable. In the same way, the Kulaks benefited Soviet society by providing it with five times as much agricultural produce per capita as did other peasants. Doing business with the Jews, a people who could never rely on the coercive power of the state, was always voluntary. Similarly, the Kulaks did not force the other peasants to work for them. They merely provided work for those who needed and wanted it.

The Cosmopolitans, it has been the contention of this thesis, share both of these damning assumptions and it is on the basis of these assumptions that they are critical of globalisation and the apparent decline of the power of the state. As has been seen, the debate about globalisation is essentially about the appropriate role played by the state in the lives of the individuals. On the one hand, there are those who argue that minimising state interference in the lives of individuals is good, both morally and practically. On the other hand, there are those, who argue that it is not. This division is not new. As early as the 4<sup>th</sup> century BC, the ancient Greeks argued about the proper role of government. While it is true that in those days individualism was barely nascent, Plato was already campaigning for a totalitarian state. In the 20<sup>th</sup> century, his vision finally came to fruition. At the beginning of the 21<sup>st</sup> century, however, many see globalisation as rolling back the boundaries of the state. In fact, this is not, strictly speaking, true. Certainly, as far as the state expropriation of money in taxes and their redistribution is concerned, the revenues are at an all time high and still rising in absolute terms.

For example, before the American War of Independence, the citizens of the thirteen colonies were taxed \$0.67 per capita per annum. By 1787, the US government spent approximately \$3 million per annum. Adjusted for the size of the US population at the time, this came to \$1 per citizen. By 1910, the federal government spent over \$600 million or \$6.75 per capita per annum. By 1929, the federal spending rose to \$3 billion or \$29 per capita per annum. In 1995, the US government spent over \$4 billion a day, or \$6000 per capita per annum. Adjusted for inflation, between 1929 and 1992 the federal spending increased by 9000 percent.<sup>12</sup> Incredibly, in the eight years that followed, the federal income tax revenue doubled.<sup>13</sup> This should come as no surprise, for in his notorious 2000 State of the Union

Address, President Clinton proposed approximately \$4 billion of *new* government spending *per minute* of his one and half hour long speech.<sup>14</sup> Another area, which is normally little discussed is the cost borne by the private sector in complying with governmental regulations. In 1993, for example, Vice President Al Gore's Task Force on Reinventing Government estimated this cost to be \$430 billion per annum; 9% of the GDP that year.<sup>15</sup> Of course, this did not diminish the Clinton Administration's appetite for further regulation. Thus, between 1992 and 2000, his administration issued no less than 25 *thousand* new regulations.<sup>16</sup> Clearly, therefore, there are signs that in some respects the state is still growing.

As far as the freedom of the markets is concerned, however, be it in the form of free flow of capital or growth in the volume of international trade, the world is certainly freer than it has been since the beginning of the WWI. This inconsistency between the increased freedom to trade and the increased expropriation of resources is based on a view that it is possible, at the same time, to maximise economic growth and increase tax revenue. Though rising taxation was impracticable in a protectionist world where economic growth was either limited or non-existent, the free markets are seen to provide a convenient way for the state to increase the tax revenue at no apparent cost to the overall standard of living. Economically speaking, this is a fallacy. As has been shown by the Socialist experiment, it is impossible for the government to divert capital away from its most profitable use in the market without damaging long-term growth and the prosperity of the people. However, the lost growth caused by high taxation is something that will never be known and the politicians cannot, therefore, be brought to account.

Minimising government expenditure, on the other hand, seems to be a sure way to achieve maximum economic growth and to assure continued rises in the



absolute income levels. Importantly, it is also the only way in which corruption can be rooted out. As Gary Becker wrote, "corruption is common whenever big government infiltrates all facets of economic life". This is because special interest groups are using their political connections to impact economic decisions. According to Becker, the "only... permanent way to reduce undesirable business influence over the political process...[is to] weaken the link between business and politics".<sup>17</sup> Of course, Becker's preference for minimal government leads back to Hayek, for the latter's concept of constructivist fallacy does not apply to the determination of commodity prices only. Its reach goes well beyond economics. As has been seen, the Marxist and Nazi societies were based on the assumption that communal existence could be, so to speak, "engineered". Hayek's response was his notion of "katallaxia", a name he gave to a spontaneous or naturally evolving social order.<sup>18</sup> The attraction of katallaxia, like the attraction of the price mechanism, rests in its ability to take into account all the available information. In practice, this means that society evolves from one stage to another not according to a necessarily faulty design, but according to centuries of trial and error. At the end of this process, the argument goes, there should emerge a society that is imperfect, but better than the one that preceded it. This, in turn, leads back to the defence of liberty that the protagonists of the Scottish Enlightenment, such as Hume and Smith, offered hundreds of years ago. As they argued, the ultimate defence of liberty must rest in its ability to allow for the emergence of a maximum number of choices, out of which the most suitable solutions are likely to emerge and take root.

Minimising government is, of course, precisely what the Cosmopolitans do not want. According to Held and other Cosmopolitans, the areas of democratic or political control should be broadened, bringing an ever-larger section of economic

and social activities under public and, more importantly, legislative control. How exactly this increased democratisation will ensure creation of an efficient and growth oriented economic system is, however, left unanswered. This should not be surprising, for the main aim of the Cosmopolitans is not the creation of a healthy economy. Their aim is to create an egalitarian distribution of resources, which, as has been repeatedly pointed out, is not conducive to economic growth. But, neither is it conducive to individual freedom. Both the means of achieving of an egalitarian society and the functioning of such a society have always been highly coercive, restrictive and, ultimately, immoral.

The immorality of big government is a topic often overlooked by those, who tend to be satisfied with pointing out the practical shortcomings of government intrusion. But, the moral arguments must also be considered. Some proponents of big government, for example, suggest that the welfare state is necessary in order to keep social peace. But, ready acceptance of this kind of argument is to submit to blackmail. Those who fail to succeed should not be allowed to hold society, in general, and successful individuals, in particular, hostage. The argument "if you do not share with us, we shall revolt" has no place in a civilised society. Similarly, it is doubtful that a society where individuals are being habitually exploited and effectively sacrificed for the benefit of others is worth preserving. After all, the creation of a society, where an individual was considered as a means to an end, which was characteristic of the USSR and Nazi Germany, has already been tried and rejected.

Scope should perhaps be created for private initiatives that have historically flourished throughout the West before the onset of the welfare state.<sup>19</sup> What is more, only a private provision of aid to the people in need can be said to encompass a true

moral meaning, which is utterly lacking when such provision derives from taxation. Only an individual free to make a choice between contributing to the survival of his fellow man and refraining from doing so, can be said to exercise a moral judgement. The governmental enforcement of charity, on the other hand, takes that moral judgement away. There is no moral choice when looking down the barrel of a gun. Clearly, as Bastiat wrote, “you cannot legislate fraternity without legislating injustice”.<sup>20</sup>

Progressive taxation is, of course, one of the most glaring examples of the immorality of the welfare state. When progressive taxation was proposed for the first time during the French Revolution and then again prior to the 1848 revolutions, it was rejected. ‘One ought to execute the author and not the project’, Turgot responded to an early version of such proposal. J. R. McCulloch warned, “The moment you abandon the cardinal principle of exacting from all individuals the same proportion of their income or of their property, you are at sea without rudder or compass, and there is no amount of injustice and folly you may not commit”.<sup>21</sup> The Cosmopolitans, however, claim that progressive taxation is a compensation the disproportionately wealthy pay for the greater use they make of the opportunities that society offers. It is called “giving back to society”. But, this argument does not work. Firstly, were all the people taxed at the same rate of, for example, 10%, the more successful would still pay more in taxes. After all, 10% of a million pounds is significantly more than 10% on a hundred thousand pounds and so on. The arbitrariness of setting taxes at “progressive” levels simply points to the government’s determination to tax at whatever level it can get away with. Thus, between 1978 and 1979 the British Labour government set the highest marginal tax rates between 83% and 98%.<sup>22</sup>

Moreover, this argument does not take into account the benefits that the society receives because of entrepreneurial activity. A pharmaceutical company that discovers a new drug and sells it in the market, for example, provides important services to the community, by creating employment and contributing to the tax revenue. Most importantly, it makes people healthier. There is simply no justification for claiming that the company must pay for being allowed to function. Finally, the argument assumes that the opportunities to make money need not be, to use Kirzner's phrase, "discovered"; that they exist "separate" from any sort of human input. This "static" understanding of the economy fails to provide a satisfactory answer why it is that not everyone can utilise these economic opportunities. Clearly, not all people are equally able to do so, but to penalise those with superior abilities is to jeopardise innovation and economic growth. Progressive taxation is such a penalty; it implies that to outperform others is unjust, unacceptable and to be curbed.

Similarly, on a global scale, the prosperity of the developed nations is constantly seen as having been obtained at the expense of others. Conversely, poverty of the Third World countries is almost universally blamed on events beyond their control. Thus, the argument goes, the Third World countries are poor because they were colonies. Yet, a number of the richest countries in the world, Hong Kong, Singapore, New Zealand, Australia and Canada, were colonies. Clearly, their colonial status did not harm their development. Conversely, with the exception of six years of Italian occupation during the WWII, Ethiopia has never come under European colonial rule. Yet, it is one of the poorest places on Earth. Then, there is the argument that underdevelopment happens because of overpopulation. Again, because of its medical inventions, which minimised the Third World mortality rates, this is supposed to be the fault of the West. Yet, some of the most densely populated

countries in the world also happen to be the most economically developed. Japan and Hong Kong come to mind. Conversely, some of the least developed countries, such as Sudan and Chad, are also the most sparsely populated. As Bauer points out, every hungry mouth is accompanied by a pair of hands, which are meant to sustain it.<sup>23</sup> Next, there is the argument that in order to be developed, states need to be geographically large and rich in natural resources. Again, this is a false assertion, which can be easily refuted. The Soviet Union, for example, was the largest country in the world. It was also the country richest in natural resources. Yet, by the time it disintegrated in 1991, the Soviet Union was infamous for the poverty of its people and for constant shortages of the very commodities it was so plentifully blessed with. Conversely, Singapore and Hong Kong, just like Renaissance Florence and 17<sup>th</sup> century Amsterdam, flourish despite their minuteness and lack of many of the sought after natural resources.

Finally, there is the all-time favourite: economic exploitation. The Third World, the neo-Marxists claim today, is poor because of its exploitation by Multinational Corporations (MNC's). But, there are no MNC's and never have been in Chad, Bhutan and Burundi. Yet, these are among the poorest countries in the world. Conversely, as evidenced by Hong Kong and Singapore, many of the countries where MNC's have been encouraged to function, visibly prosper. However, it seems clear that the above arguments fail to look at the most obvious factor which differentiates between the rich and the poor countries in the World. States that participate in free trade grow richer, while states that adopt isolationist and collectivist policies do not. As the examples of Taiwan and China, North and South Korea, and East and West Germany show, prosperity depends on good governance,

greater efficiency and, most importantly, a beneficial economic system. Yet, despite all this, the zero-sum understanding of capitalism lives on.

Nowhere is this more evident than in the desire across much of the political spectrum to regulate the market forces. As has been seen, regulation of the market is something on which the egalitarian left, as well as the protectionist right, can agree. Before moving onto their regulatory proposals, it is important to notice that on the fringes of both right and left there are those who would like not only to stop the process of trade liberalisation, but who also wish to reverse it. The religious right, for example, may wish to do so in order to move closer to a mythical past, when all was supposed to have been shared and where people, as a consequence, lived in harmony. The far left also wishes to recapture the supposed egalitarianism of the original societies, but without the religious overtones. This makes both fringes close to the original anti-capitalist movement of the 19<sup>th</sup> century. As Marx rightly acknowledged, capitalism was the radical force responsible for the emergence of the Western societies from the era of feudalism. It was in response to the radical transformation that the Western societies were then undergoing that socialism originally emerged. "Communism is not radical: capitalism is radical", Bertolt Brecht, a prominent life-long communist, stated. More than anything, Socialism of the 19<sup>th</sup> century was nostalgic. In the time of unprecedented changes, it stood for a return to familiar values and, importantly, hierarchy. Thus, the Socialist historian Richard Towney, "called for a return to Christian values and traditional morality", which were abandoned during "the demeaning scuffle for wealth". Similarly, Ruskin, in opposition to Mill and other liberals, who supported the legislation that ended slavery, declared himself in favour of 'lordship'. As the reality of Soviet existence was to confirm, Socialism and overlordship were fully compatible. One form of over-lordship threatened by capitalism

was the relationship between the sexes. Thus, in an expression of paternalistic conservatism, Friedrich Engels stated that “it was plainly demoralising for women to go out to work... especially when the husband was left unemployed at home ‘to look after children and to do the cleaning and cooking’”.<sup>24</sup>

Now, once again, capitalist-driven globalisation is the most radical game in town. It is breaking down racial, gender and caste barriers across the world. As the world becomes more competitive, fewer and fewer companies can ignore able individuals because of factors unrelated to business, such as race and sexual preference. Black musicians and sportsmen earn millions of dollars by utilising their talents and thus, indirectly, bringing more and more blacks into the mainstream of socio-economic life. Similarly, business increasingly aims to capture the “pink pound” by catering to the needs of the gay community. As with the stock exchange in early-modern Amsterdam, business brings people together on the basis of their need for each other’s services. Importantly, it does so without the negative consequences, such as the feeling of resentment, that is a result of the affirmative action policies currently favoured in the West. The rise of Islamic Fundamentalism, like the calls for a return to Christian values during the course of the 19<sup>th</sup> century, is partly based on a misunderstanding of the process of capitalist wealth creation and is partly a reaction to the unsettling changes that capitalism causes in traditional societies.

Aside from the extremists, there are those, who wish “merely” to limit capitalist “excesses” through regulation. Thus, the Commission on Global Governance proposes to tighten the global financial structures through the establishment of the Economic Security Council. Once again, underlying this proposal is the constructivist assumption that the Council would have the information necessary to guide the global markets through recessions. But, this is an

unsubstantiated assertion. Historical evidence suggests that this would be highly unlikely to happen. On the contrary, as was the case with the Great Depression, it is probable that this kind of interference would result in a worsening of the situation and a delaying of economic recovery.<sup>25</sup> What is more, the quality of the information necessary to guide the markets must increase with the volume of financial transactions. In a way, regulating the market is like driving a car. A driver of a car moving at 10km per hour can close his eyes for a second and he will still be on the same road, moving in the same direction. A driver of a car moving at 100,000km per hour cannot do so, for he will find himself off road or cause his car to crush. Fine-tuning of the market as large as it currently is, is unlikely to be successful. Fine-tuning of the market, as large as it is likely to become if globalisation runs its course, is next to impossible.

The Commission also proposes the establishment of a global economic forum aimed at making the markets more "equitable", "democratic", "socially cohesive" and "socially responsible". But, as has been discussed, the reason why the markets work is precisely that they do not take into account amorphous political criteria. Social cohesion and social responsibility, after all, characterised the Soviet economic system. It was there that the factories kept on producing goods that nobody wanted. Ultimately, this dogma of full employment and other socially cohesive factors led to stagnation and poverty. The market, on the other hand, causes money to move into the most productive areas of the economy. It is true that during this process some people lose their jobs. It is equally true that others gain jobs in growing parts of the economy. After all, one of the main attractions of less regulated economies, such as those of the USA and UK, is precisely the continuously lower rate of unemployment than that found among its more regulated Continental competitors. Of course, the



greatest benefit of a de-regulated economy is the innovation, increased efficiency and economic growth, which make the nations partaking in the global capitalist system the richest, healthiest and longest living people the world had ever known. But, even some of the supposed friends of the free market cannot conceive of it in terms of Hayek's *katallaxia*.

States exist within an anarchic world. They have no recourse to a global government, which can be relied upon to enforce the law. Thus, in order to function, international agreements have to rely on the enduring self-interest of the signatories. If these signatories perceive the benefits of their continued adherence to an international regime to outweigh the costs of breaking away, they will stay in. Alternatively, they will leave. All this makes international regimes very unstable. This is particularly true of trade arrangements, where domestic protectionist pressures often force the governments into adopting illiberal economic policies. The recent adoption of steel quotas by the USA, for example, flies in the face of the President Bush's stated goal to further the cause of free trade across the globe.<sup>26</sup> The alternative, however, would be worse, for it would include an intensification of lobbying by protectionist groups. The result of this lobbying could well be the defeat of the proposal to grant the President his "fast track" negotiating authority. Should Mr Bush fail to obtain it, the cause of free trade will be damaged further, for the US Congress will be able to stall new trade agreements indefinitely. In other words, compensating for the destructive effects of domestic protectionism is not easy. Similarly, making of the international trade agreements tighter bears the risk of having no agreements at all.

As Sally argues, the approaches toward trade liberalisation that reflect these underlying domestic realities are institutionalism and legalism. Institutional liberalisation is an approach which facilitates gradual multi-lateral lifting of trade

restrictions through the creation of global regimes, such as the WTO. However, its rules are an outcome of political compromise and are, therefore, relatively lax. At the heart of these political compromises is the desire of the signatories to leave themselves as much room for national economic manoeuvring as possible. They aim, so to speak, at achieving liberalism abroad and illiberalism at home. Legalistic liberalism, on the other hand, is thoroughly uncompromising in its battle against protectionism. Though this is good news for the proponents of the free market, the accompanying expansion of the legal framework is profoundly anti-katallactic. Thus, while in the former case there is a danger of dilution of the principles of free trade, in the latter case there is a real potential for bureaucratic expansionism. Is there an alternative to this "liberalism from above"?

The authors of the Scottish Enlightenment would find the above approach to trade liberalisation strange in the sense that it does not take adequate account of the differences in national socio-economic arrangements. For the Scots, "theories of international order... [were] predicated very much on the preconditions of national order". In practice, this "liberalisation from below" means that in order for a theory of social order to work, both the international and national levels have to agree. In the 19<sup>th</sup> century, for example, international laissez-faire was mirrored at the domestic level. At both levels, in other words, the state interference was minimal. Then, as has been discussed in the first chapter, came the time of the welfare states. With the growth of the state came "inflationary policies and concentrations of political and economic power... [which spilled] over into the international economy with balance of payments disequilibria and the market-nonconforming interventions of 'managed trade'... [such as] quotas, exchange controls, bilateral clearing arrangements and the like". The two levels fell out of sync and, with time, international laissez-faire became illiberal as well. But, because of the effects of globalisation, this joined

illiberal system came apart. Thus, whilst at the international level there are pressures for a greater liberalisation of the market, the illiberal domestic arrangements push the world in the opposite direction. It is a "Keynes at home and Smith abroad" situation. So, to make international liberalism work properly, a liberal change at the domestic level seems necessary. But, how can it be achieved?

Firstly, to use Hayek's phrase, the rule of men must be replaced with the rule of law. As this thesis shows at length, the concept of equality before the law is now thoroughly compromised, because of the obsession with material or "substantive" equality. National governments promote under-achievement and mediocrity by discriminating against over-performing individuals and groups. This unequal treatment of persons before the law is immoral, for it makes the social rules subject to pressures exercised by the best-connected members of society. But, it is also economically distorting, for it makes the fulfilment of the full potential of the most able members of the society impossible. Social engineering does not apply only to individuals. National governments keep changing market outcomes by their unequal treatment of companies. Those companies which are well connected or which can convince the political establishment of their "indispensability" receive a variety of financial donations and tax breaks. They also get protection from both domestic and international competitors through the system of licences and import quotas. Labour laws and other legislation aimed at the creation of "social cohesion" prevent structural adjustments, thus keeping inefficient or obsolete industries operating. Therefore, the essential characteristic of a society ruled by law and not by men must be the re-establishment of a meaningful conception of private property rights, including an extensive freedom of contract. The law must "be applied universally and impartially to free and equal legal individuals". Similarly, laws must be "abstract

and negatively defined, defending the individual's liberties from encroachment by the state and other individuals in society, but leaving all other actions not explicitly mentioned allowable".<sup>27</sup>

A minimal government, in other words, is the only way of ensuring the above "liberalism from below". Of course, this does not mean that all countries will have to jettison "bad" laws and adopt "good" laws at the same time or to the same extent. If allowed to do so, "liberalism from below" will work in a *katallactic* fashion. Countries, which adopt good laws, will be rewarded with increased investment and greater prosperity of their people. Countries, which adopt bad laws, will be punished by economic stagnation and will thus be forced to change. Globalisation has already started doing the above. This should come as no surprise, for globalisation is a spontaneous and unintended development. It is *katallaxia* at work. Further legislation on globalisation, be it for the reason of battling the "excesses" of capitalism or for the reason of increasing "equality" will retard this process. Hayek's dream of a de-regulated world, where freedom allows for the emergence of an infinite variety of different systems competing for the loyalty of the markets and the people might thus be once again postponed.

A final word must be reserved for the Cosmopolitans. As Hitler rightly recognised, in the sense that it knows no boundaries, capitalism is truly "cosmopolitan". This was one of the reasons, why as a national socialist, he was determined to oppose it. Similarly, Marx saw capitalism as cosmopolitan. It was because of the internationalism of capital that Marx conceived of the international bourgeoisie and the international proletariat. After all, if the oppressive capital was global, so must have been the oppressed class of people. But, the capitalist type of cosmopolitanism is profoundly different from the one advocated by Held and others. It is, as it has always been, a

pressure from below; an observable outcome of an infinite number of business transactions that individually are almost insignificant, but which together can change the world. Held's Cosmopolitanism is political and as such cannot but impose on the society a certain set of predetermined rules. The capitalist type of cosmopolitanism is economic. Its result, is an emergence of a society that none intended. It might not be a perfect society, but it is a better one.

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